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CONTENTS

Trend of Events 203

As I See It. By Charles Benedict 205

Gauging New Recovery Phase. By A. T. Miller 206

If the War Ends Next Year. By John D. C. Weldon 208

Reconstruction of Europe. By V. L. Horoth 211

At What Price Should Your Stocks Sell? By L. O. Hooper 216

What It Will Take to Pay for This War. By Ward Gates 219

Stockholders' Forum 222

Happening in Washington. By E. K. T. 224

Have Machine Tools Discounted Peace? By Owen Ely 227

Market Potentials in Auto Accessories. By J. C. Harrington 230

Securities Disturbing Investors. By J. S. Williams 233

Investment Audit of Pullman, Inc. By Stanley Devlin 234

For Profit and Income 236

Investment Audit of F. W. Woolworth. By George L. Merton 238

Six Low-Priced Stocks for Capital Building 240

The Business Analyst 243

Answers to Inquiries 247

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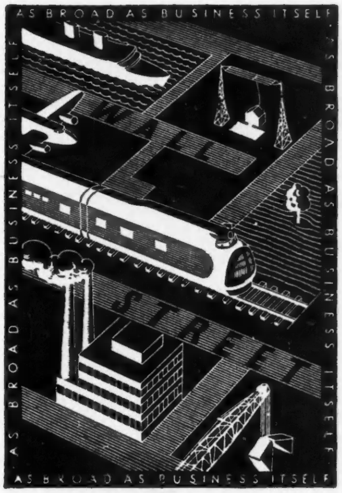
These inspectors of binocular assembly in a Westinghouse Electric plant represent a tiny segment of the millions of women now employed in industry. At least 5,000,000 more are needed. What will happen to those jobs—and to industrial volume and trade—if the war ends within another one to three years? We attempt a sensible answer to this question in the article beginning on page 208.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

ECONOMIC SECURITY . . . There is virtually no opposition to the objective of establishing greater economic security for all individuals. But there are wide differences of opinion as to how to do it. Indeed, to express the generalization that mass unemployment must be avoided if we are to assure prosperity and stability is merely to open the debate on means and methods.

At the recent annual meeting of the National Association of Manufacturers, some speakers urged greater international economic collaboration; others argued for American economic nationalism. Some demanded the removal of "Government restrictions on business"; others favored "closer co-operation" between Government and private enterprise.

Great interest centers currently on the recent recommendations made by Sir William Beveridge on post-war economic policy for Great Britain. But the newspaper press has over-emphasized one section of these recommendations: that having to do with a much broadened "social security" system. Actually, the proposals of Sir William were set forth in the following order of emphasis: (1) international co-operation; (2) economic policies in Great Britain "to maintain productive employment"; (3) social security.

That is the correct order for Britain, to whom international economic relationships have always been more vital than to the United States. And in any country, including this one, the wherewithal of real social security must be produced before it can be distributed. Obviously, therefore, the question of more "reform legislation" is distinctly secondary to the question of how we can best maintain our economic system at a level of maximum productivity after the war.

On this question there is certain to be much debate both during the rest of the war and thereafter. That is a good thing. Only through very thorough public discussion of so complex a problem can a democracy such as ours hope to arrive at a sound program.

THE POOR FARMER! . . . It looks like the Administration's price-control program is headed for the rocks. Once more the tireless farm bloc is all set to boost the ante. Last week in a surprise move the House of Representatives revived and unanimously passed a farm parity price bill which the Administration had successfully opposed only in September on the valid ground that it would add many billions a year to the general cost of living.

This bill would force the Government to include farm labor costs in the parity formula. Because of past rise in farm labor costs, this would raise average parity prices by an estimated 10 per cent. Since farm wage scales will rise further, this formula is elastic. When food

Business, Financial *and* Investment Counselors · 1907 — *"Over Thirty-Four Years of Service"* — 1942

costs rise, the labor unions naturally will demand, and get, "upward adjustments" in wages. Thus, the familiar inflation spiral — never fully halted — will again gain momentum. The Washington concensus is that the Senate will also pass the bill, and that this time it will have sufficient support in both branches of Congress to over-ride the President's certain veto.

For the record, gross 1942 farm income, including Federal benefit payments, is estimated at $15,600,000,000 by Leon Henderson, or 79 per cent more than in the pre-war year 1939. Deducting farm operating expenses, the net income is put at $9,800,000,000, or 118 per cent above 1939. Mr. Henderson points out that the latter figure is the largest ever recorded—exceeding by fully $1,000,000,000 "the income earned by farmers in the fabulous year 1919, and every dollar of this income buys vastly more than it did in that year."

Since the lid will soon be off on wage demands, let us note also for the record that labor's weekly earnings are now about 53 per cent greater than in 1939 and have a purchasing power 30 per cent greater. Again in the words of Mr. Henderson, the current wage levels "will permit labor generally to enjoy the most favorable position it ever has attained."

Yet our public officials continue to tell us that civilians must accept deep sacrifices. Just what civilians? All of us, apparently—except farmers and members of labor unions. It is to be doubted that the rest of us will passively take it in the neck. We also have votes and we know how to talk turkey to our representatives in Congress.

THE RUBBER OUTLOOK . . . The automobile tire situation is now easing very gradually, with more liberal monthly rations for essential users, but will remain nevertheless at a stringency level for another seven to eight months. After the middle of 1943, output of synthetic rubber is expected to mount rapidly as more and more of the new plants now under construction come into operation.

From this distance one can look back more tolerantly on what a short time ago was generally—and rightly—called the Government's "rubber mess." After all, the goal—and it will be attained—is to reach within two years' time a production of synthetic rubber exceeding the natural rubber production that it took the world *fifty* years to attain. Also it must be remembered that the technics of synthetic rubber were, and are, in very rapid evolution as research experts in the oil, chemical, alcohol and rubber industries vie with each other in discovery of improved processes.

After the war, if not before, rubber scarcity is sure to be transformed into rubber glut. The scheduled top output of synthetics will be nearly double the highest volume of natural rubber this country ever consumed in a peace-time year. It will slightly exceed previous largest annual production and consumption of natural rubber for the entire world.

It seems obvious that when the natural product again becomes available in large quantity, there is going to be an economic "mess" in rubber. The many synthetic rubber plants now being built with Government money probably will have been made obsolete by interim progress in synthetics. If there is post-war money to be made out of synthetic ruber, it very likely will be out of radically improved post-war plants privately-financed. But the central questionmark of the longer future is price—price of synthetic versus price of natural. Almost certainly it will be a lower and more stable price situation than ever prevailed in natural rubber in the past.

Such a prospect obviously implies that those who will derive the greatest advantage from the new deal in the rubber world will be (1) the consumers; (2) the enterprises which fabricate rubber—whether synthetic or natural—into finished goods.

Most speculative of all is the profit potentials of the primary producers. This doubt is not confined to rubber. The post-war prospect in all industrial raw materials is one of abundant supply and probably a more competitive price situation than ever known before.

RUSSIAN SEA POWER . . . The magazine *Sea Power*, official publication of the Navy League, has recently published a survey of the Russian Navy which states that, contrary to popular belief, it is Russia, rather than Germany, which has the largest fleet of submarines in the history of the world. In 15 months of war with the European end of the Axis, the Reds are stated to have sunk 81 enemy warships and 276 transports and auxiliary vessels totalling well over 1,000,000 tons.

Russian emphasis on submarines is natural, since her psychology has for years been defensive and her fleet must operate on four separate oceans: the Black Sea, the northern Arctic, the Baltic and the Sea of Japan. According to *Sea Power*, the Russians were the first—as long ago as 1928—to adopt the prefabricated method of building submarines; the parts being built in factories far inland and assembled at the coasts. Red subs are being built now, for instance, at Gorki, 250 miles east of Moscow and also in a special factory at Sverdlovsk behind the Ural Mountains. It is further stated that the Reds in recent years have built great numbers of fast, powerfully armed destroyers, and that two 35,000-ton battle ships either are now nearing completion or are in commission.

It is no secret that exceptionally large numbers of Russian submarines are maintained at Vladivostok and other Siberian coast bases. It is to be doubted that they will remain idle—after Hitler is crushed and the American and British navies are free to concentrate on our Japanese foe. Nobody knows when the final act of this war drama will be played out but the manner of the end will scarcely be a surprise. It will be curtains for the Nips, and United Nations air and sea power will play the dominant roles.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 208. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, Dec. 7, 1942.

As I See It!

BY CHARLES BENEDICT

THE RUSSIAN QUESTION MARK

ONLY a short time ago, we were hailing the Russians and hoping that they would inflict an ignominious defeat upon the Nazis. And now there seems to be considerable fear that in doing so they will seek to acquire political control over all of Europe. And it is quite understandable that we should be anxious, because Communism and Totalitarianism as practiced in Russia has not been of advantage to any of the people except the party bureaucrats. The standard of living in Russia before the war was practically on a subsistence level—and this after almost 25 years under the new regime.

Even before the Battle of Africa, we knew that Communism did not measure up to the Four Freedoms, and yet, under the circumstances that existed at that time, men were beginning to doubt their own judgment in the face of the heroic spirit of the Russians. They reasoned that the people must be content with their government or they wouldn't put up such a fight.

Yet, this is not exactly true. The Russian people are not fighting to preserve their bureaucratic totalitarianism. They are fighting to destroy Hitlerism which they know means the continuation of cruel totalitarianism under another form, with no hope in the future for the liberal democracy along the American pattern which had already been promised them by Stalin.

A great deal of confusion has resulted from too much "studied" talking about Communism. Moreover, there has been much to-do emanating from England and the United States that sounds very much like the rabid Communism of the early days before the disillusionment of its greatest proponents. I remember when the first exposé of the true conditions under Communism appeared in the press by such former evangelists of Communism as Emma Goldman, Max Eastman, and other high priests of the new cult. But the people have forgotten. Their memories are short. They are easily swayed by the opportunists who rule the day and whose minds are like the shifting sands—ready to turn in any direction. For they are constantly torn between their fears and their hopes.

Those who dream of a glad new world to arise out of the ashes of this war are not very realistic. Much good will come from this tragic experience, but perfection—never. Try as we might, it will be impossible to accomplish a dream world, for when the war is over, in every country men will come out of their secret hiding places. Men whose ideas will be in conflict with ours, and who will be ready to fight for their own privileges and power at the expense of everybody else. And in this country, hotheads will arise, demanding isolationism as they did after the last war—and wise men will wear themselves out trying to strike a balance.

If we wish to usher in an age of liberal democracy to supersede Communism and Fascism, we will have to assist the various leaders in the countries of the world to reorganize their economies and provide a livelihood for their people. For a long time it will mean feeding these people out of our bounty. At the moment, there are governments in exile for (*Please turn to page 257*)

Packard News Service

Gauging New Recovery Phase

Unless first strengthened by more reaction, the technical structure will afford only moderate year-end advance. We do not believe this is an opportune time to make new purchases for longer-term investment retention.

BY A. T. MILLER

Summary of the Fortnight: With strength in so-called peace stocks just about balancing softness in war stocks, the Dow industrial average moved sidewise in a narrow trading range only moderately under its top recovery level. A rather impressive number of individual issues made new highs for the year. The rail average extended its reaction.

SINCE early November, due to the "shortened war" psychology, we have really had two stock markets. Issues popularly regarded as having doubtful or poor post-war potentials have reacted considerably, and in some cases very sharply, from their highs. Stocks believed to have promising or satisfactory post-war prospects have held firm near their highs for the year or have advanced to new highs.

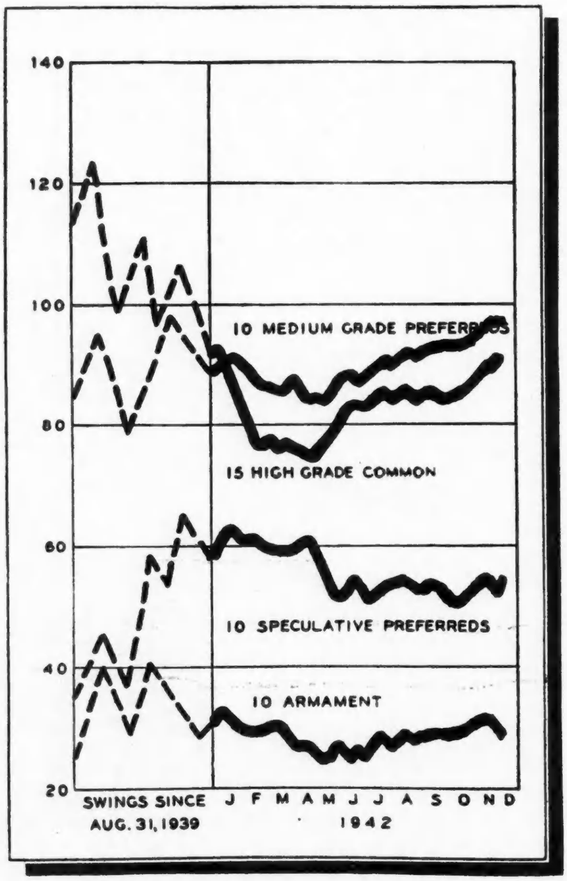
For instance, from best levels of Nov. 9, when the industrial average made its recovery high to date, to recent lowest prices, Bethlehem Steel was off 7 points, U. S. Steel 5½ points, Douglas Aircraft 8 points, American Car & Foundry 4 points, Lockheed 3¼ points, Savage Arms 2⅛, Ex-Cell-O 3⅛, New York Shipbuilding 2¾, Atchinson 4¾. These declines ranged from roughly 11 to 17 per cent, while the maximum recession in the Dow-Jones industrial average on an intra-day basis was about 4 per cent.

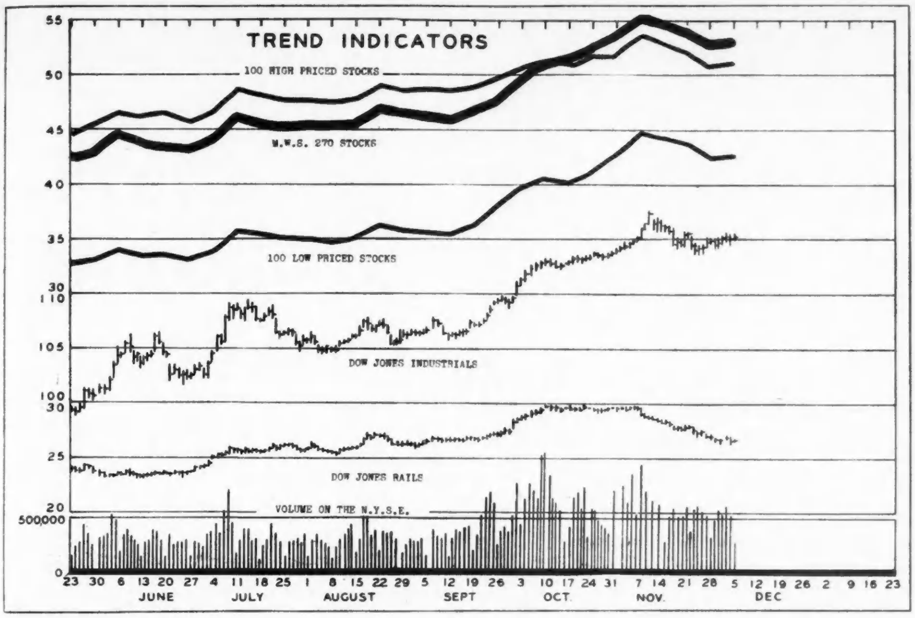
Against this, stocks in recent demand at prices well above early November levels have included Coca Cola, Commercial Investment Trust, Sears, Roebuck, J. C. Penney, Eastman Kodak, American Chicle, Dow Chemical, McGraw Electric, Union Carbide, Flintkote, American Air Lines, Pan-American Airways, Colgate, Commercial Credit, Montgomery Ward, W. T. Grant, Western Auto Supply.

Considering the character of the war news in recent weeks, there is, of course, nothing surprising in these divergent performances. Quite aside from the more favorable turn in the war news, the general behavior of war stocks throughout the entire recovery period from the low of last April had been inferior to that of the market as a whole. Our own fundamental distrust of non-recurrent war earnings has been frequently emphasized; and we have repeatedly stated our preference, in longer term speculative-investment policy, for (1) "war-and-peace" stocks and (2) "peace" stocks.

By "war-and-peace" stocks we mean stocks of companies which appear to have favorable post-war prospects but which also will fare relatively well during the war in terms of earnings and maintenance of unimpaired financial and producing assets. Typical examples are the leading autos and accessories, farm equipments, office equipments, etc.

Despite some exceptions, "war-and-peace" stocks have not been prominent among those recently making new highs, although most have held fairly close to best recovery levels. And while "peace" stocks—such as Coca Cola, American Chicle, Commercial Investment Trust, etc.—have by no means accounted for all of the new





highs recently, nevertheless on the whole they have been the most favored group.

To our mind it is open to serious question whether so marked a discrepancy can be maintained more than temporarily. It probably is true that we have reached a basic turning point in the war in the sense that the over-all strategic position of the United Nations has changed from defensive to offensive. But it is still anybody's guess how long the war will last. Churchill and Roosevelt are the military experts whose judgment this writer most respects—and both have warned that there is much hard fighting ahead.

The London stock market over the past fortnight has taken a marked turn to the cautious side. Commentators there advance two reasons: (1) a toning down of "short war" hopes evoked by the strong German resistance in Tunisia; (2) the focusing of investor attention, as a result of issuance of the Beveridge report on national planning and social security, on the debatable post-war status of capitalist enterprise in Britain.

Since it is a foregone conclusion that the Axis will eventually be forced out of Africa, why are the Germans willing to sacrifice important quantities of men and equipment in what can only be a delaying action? The answer is obvious. It is to gain time either for other Nazi counter-moves or to strengthen Axis defensive positions on the Continent, or both. There are reports from usually reliable Ankara of large-scale German troop movements into southern Italy and the Balkans. This is all to the good in the sense that German pressure on the Red armies must be substantially reduced. But whether Germany will crack as soon as we hope or put up the most desperate kind of resistance for a long time to come remains the greatest imponderable of this war.

So far as longer term investment policy is concerned, none of this alters our view that "war-and-peace" stocks and "peace" stocks constitute holdings much preferable to "war" stocks. But from a shorter term point of view we advance the following thoughts:

(1) It is probable that the December low in the market as a whole has not been seen at this writing.

(2) The customary year-end advance, which usually extends into the forepart of January, is likely to be rather modest unless a stronger technical springboard is meanwhile provided by more substantial general reaction than we have yet had.

(3) Relatively depressed issues, including "war" stocks, are in a better immediate technical position for short-run rally than the great majority of popularly favored "peace" stocks or "war-and-peace" stocks.

(4) Looking still further ahead—that is, from an intermediate term point of view—we think the chances are that the type of "war-and-peace" stocks and "peace" stocks that we favor in long term policy can be purchased at some time within the forepart of 1943 to better advantage than at present.

We concede the possibility—perhaps probability—that within the next month to six weeks the Dow-Jones industrial average may attain a recovery high moderately above the highest level heretofore recorded, which was 117.30 on November 9. But we are inclined to expect that this would be a relatively small percentage addition to the present recovery phase rather than the beginning of a new phase of important and sustained advance.

In peculiar degree, the basis of this bull market is psychological. The normal foundation for a bull market—a rising trend in corporate earnings—is not present and can not be present while the war is in progress. Advance in the market must depend on a continuing willingness of investors—for this is primarily an investor-dominated market—to pay higher and higher prices for what is on the whole a static level of earnings. The psychological factors influencing this are: (1) Hopes or fears as to the duration of the war; (2) the degree of confidence in the over-all post-war prospect for private enterprise and the return on invested capital; (3) the degree of confidence in post-war earnings potentials of individual stocks.

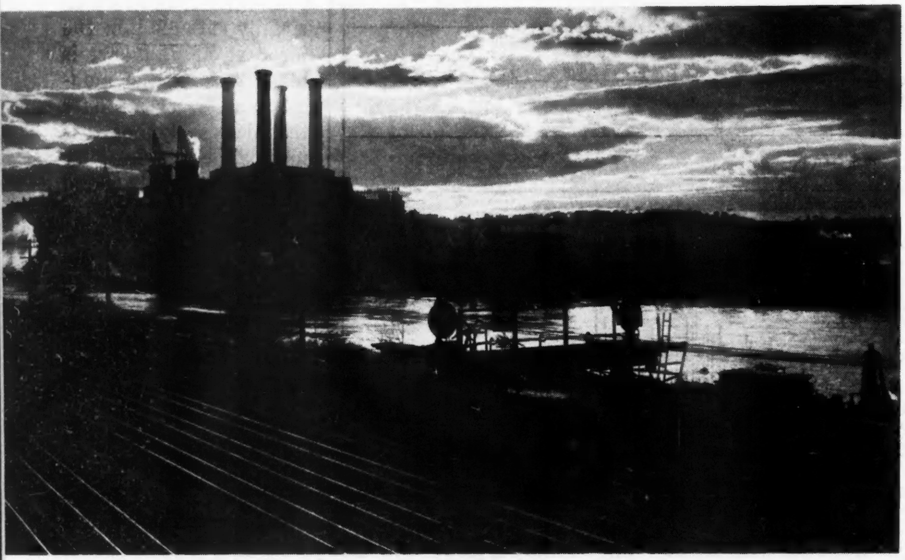
We don't think the last period of worry or doubt about these matters has been seen; and most stocks which appear to have favorable post-war potentials are now discounting an indeterminate future at least a goodly distance in advance. It begins to appear that a full scale intermediate reaction is more likely in the forepart of 1943 than in this final month of 1942.

Conclusion: We advise a sit-tight policy on long term equity holdings but would defer any new buying.

—Monday, December 7.

If the War Ends Next Year—

In 1944—
In 1945—



Cushing Photo

BY JOHN D. C. WELDON

It is time for business men and investors to be thinking very seriously about the end of the war.

This not by any means to imply that peace is "just around the corner." In the face of the imponderables involved, it would indeed be a rash or foolish man who ventured precise prediction on this score.

But the war road is no longer completely unknown, as it was when our enemies held the initiative—when they were advancing, and we retreating. Now (1) American-British-Russian war production is a veritable flood, far surpassing that of our enemies; and (2) we have firmly assumed the offensive initiative according to sound strategic plans which are being executed with remarkable effectiveness.

For both of these reasons it can be said with considerable assurance that the basic turning point in the war has come. The "how" of victory can be seen in fairly clear proportions. That being so, the "when" becomes a matter of reasonable conjecture and no longer a wild guess into a dark and unlimited future.

Germany may be defeated in 1943—or 1944—or 1945. Japan may be beaten within a year to eighteen months after Germany is crushed or capitulates. This range of conjecture does not seem over-optimistic to the writer nor to most military experts. Certainly it falls within the boundary of calculable possibility, if not probability.

If that is so, it surely is not premature for business men and investors to begin shaping their own strategic plans with proper allowance for post-war economic-industrial prospects and potentialities so far as they can be foreseen with approximate clarity.

The first thing to be emphasized is that the end of the war, whenever it comes, need not, and in all probability will not, usher in a business depression. Upon this point a very large majority of our economists and our most influential industrialists are in full agreement—assuming that, especially in the transitional period, an intelligently constructive "control" policy will be carried out by whatever Administration is in power, with adequate cooperation by Congress; and assuming further that business men will be left under no major uncertainty as to this policy.

In the writer's opinion, these assumptions are safe. At least in domestic economic policy, there appears—fortunately—to be no political alternative to the New Deal except a Republican version of it. If the next Administration is Republican, almost certainly it will be headed by some one from the "liberal" wing of the Party, as represented by such men as Willkie, Dewey, Saltonstall, Stassen and others.

Such a man will know—or very quickly learn—that it is out of the question in the modern world to leave employment, economic activity and the ups and downs of the business cycle to the mercy of what stand-patters used to call "free economic law."

A large majority of the American people are agreed that maintenance of a high level of national income and employment is a proper concern and responsibility of the Federal Government and that to that end: (1) Government policies should be calculated to give maximum play to the productive energies of capitalist enterprise, and (2) Government spending must be used as a compensatory control to such extent—but no more—as is necessary to attain substantially full employment and utilization of our economic resources at a prosperity level. This concept is accepted in England and various other countries. It will be accepted throughout the democratic, capitalist world. Certainly *laissez-faire* has long since ceased to be a feasible alternative. The only remaining alternative is the Authoritarian State—

whether it be Communism or Fascism or some other ism.

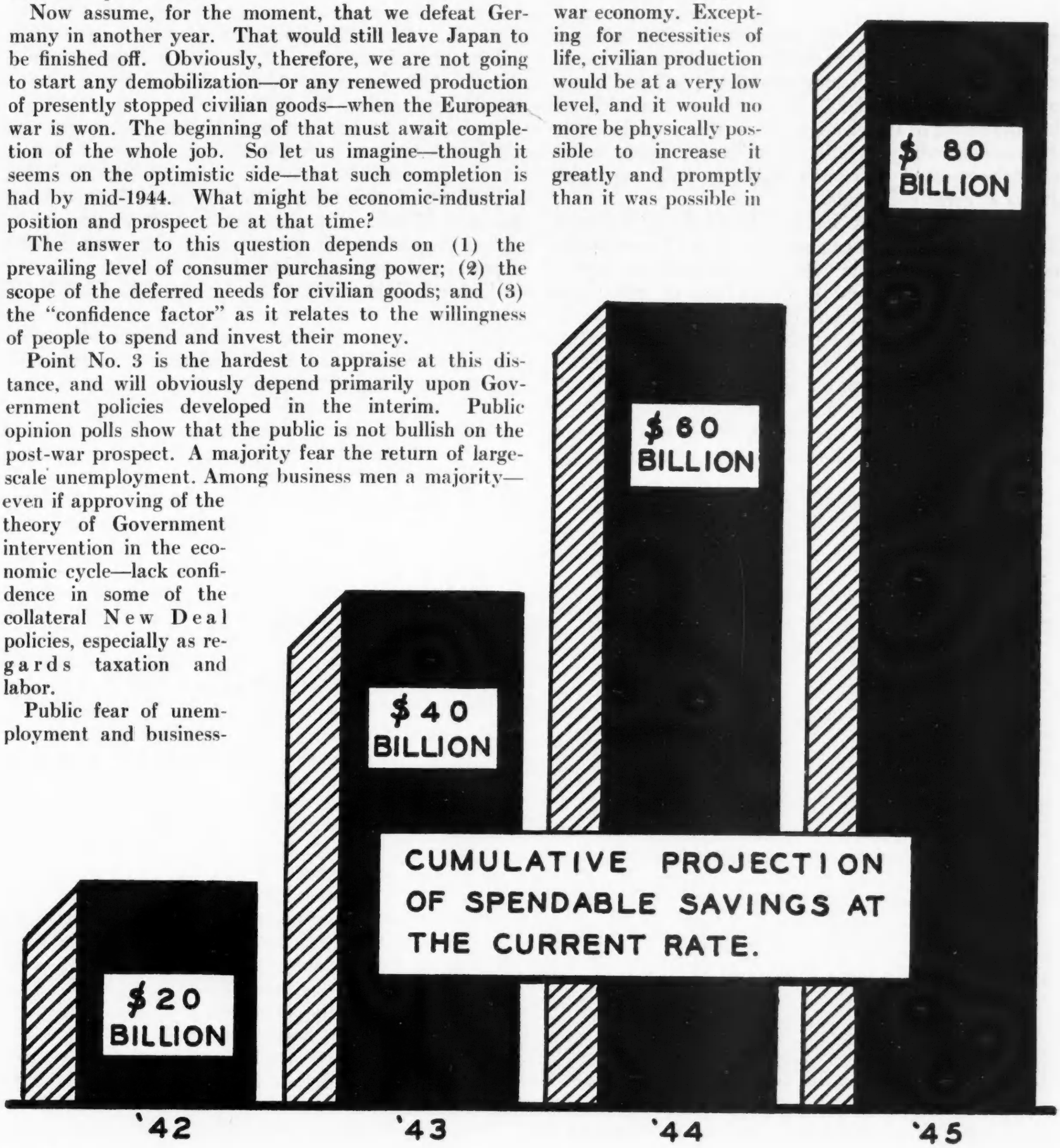
I therefore venture to say with confidence that the problem of shifting from a war to a peace economy will be solved with no undue difficulty. Time will be required for the progressive re-conversion of civilian industries now engaged wholly or largely in war production. Demobilization of the armed forces—and of industry—will not be sudden but necessarily will be spread over a period of many months. Nor will it ever in our time be anywhere near as complete as it was before the war—for, having won the war and the peace, we shall insist on keeping them won; and that will for an indefinite, if not permanent, time require maintenance of much greater military power than we have previously maintained in peace time.

Now assume, for the moment, that we defeat Germany in another year. That would still leave Japan to be finished off. Obviously, therefore, we are not going to start any demobilization—or any renewed production of presently stopped civilian goods—when the European war is won. The beginning of that must await completion of the whole job. So let us imagine—though it seems on the optimistic side—that such completion is had by mid-1944. What might be economic-industrial position and prospect be at that time?

The answer to this question depends on (1) the prevailing level of consumer purchasing power; (2) the scope of the deferred needs for civilian goods; and (3) the "confidence factor" as it relates to the willingness of people to spend and invest their money.

Point No. 3 is the hardest to appraise at this distance, and will obviously depend primarily upon Government policies developed in the interim. Public opinion polls show that the public is not bullish on the post-war prospect. A majority fear the return of large-scale unemployment. Among business men a majority—even if approving of the theory of Government intervention in the economic cycle—lack confidence in some of the collateral New Deal policies, especially as regards taxation and labor.

Public fear of unemployment and business-man distrust of New Deal intentions and methods would naturally exert restraining influences on spending and productive investment. Also there will be a national election in November, 1944. Remember that we are assuming here that the war will have ended by mid-1944, just a few months ahead of that election. It would be a time of considerable psychological uncertainty. There would very likely be an interval of pressure on the commodity price structure, but slight—if any—actual deflation of production and employment because in the initial months of peace there would be a carry-over of war production; and for the greater part of the second half of that year we would still have substantially a war economy. Excepting for necessities of life, civilian production would be at a very low level, and it would no more be physically possible to increase it greatly and promptly than it was possible in



1940 and early 1941 to get mass production of arms.

Thus, on the most optimistic assumption—despite the certainty of a high level of available consumer purchasing power and a large accumulated need for civilian goods—it is improbable that the small beginnings of a peace-time prosperity period could be seen before the closing weeks of 1944; and that would be conditioned importantly by the outcome of the Presidential election and the character of the preceding political campaign.

It may seem rash to do any speculating about the next national election from this distance. Yet, so far as domestic economic policy is concerned, we need not put undue emphasis on political party labels. We know that the extremes of Left or Right hold no appeal to the mass of the American voters. It is, therefore, the writer's very strong conviction that it will be the "middle of the road" that this country will seek, and that the 1944 election mandate will be for a workable, productive liberalism within the frame of our long established political, social and economic institutions. If this is so, the odds are that the result of the election will increase—rather than decrease—spending-investing confidence, upon which privately-financed economic activity and expansion always so greatly depends.

Moreover, it is a fact that the size of the sales market that the business man can see in sight or in reasonable prospect has more to do with his willingness to buy inventory or expand plant facilities than all other considerations together—including politics. If business men are convinced—and I think they will be—that the Government firmly intends to carry out policies calculated to maintain mass consuming markets, they will be guided accordingly. As I see it, future changes in the business cycle—as was the case in the New Deal years prior to the war—are almost certain to occur in the following sequence: (1) "inflationary" or "deflationary" moves by the Government; (2) expansion or contraction in business-man buying and capital investment; (3) expansion or contraction in consumer spending and investment. In the early phases of the post-war transition period, Government policy hardly will need to be inflationary. All it need be is non-deflationary. There will be ample foundation for an extended period of prosperity-level economic activity, privately financed—the foundation being an accumulated need for civilian goods and a huge volume of latent purchasing power in the form of liquid savings.

In the third quarter of this year the disposable savings of the public—in the form of bank deposits, currency and Government bonds—increased by the enormous amount of $7 billions or at an annual rate of $28 billions. There is no reason to suppose that fourth quarter savings will be much, if any, less. Thus, 1942 savings accumulation in these forms—spendable at some future time—should approximate $20 billions.

Projecting the future annual savings rate under war conditions necessarily involves some guessing. Part of the sharp recent rise in liquid savings no doubt reflected a build-up of cash against the increased Federal taxes due next March. Tax payments in 1943 would tend to reduce proportionately the present savings rate in bank deposits and currency. And during the next year new or higher individual taxes may be enacted. Working in the opposite direction—that is, tending to increase savings—will be further rise in total payrolls, increasing shortages of goods and much more extensive rationing, and (probably) a compulsory war-bond savings program.

On balance, it is readily conceivable that, under continuing war, annual public savings in war bonds, deposits and currency might be little, if any, lower than at present. But to be conservative, suppose we project it at $20 billion a year, or $8 billion less than the recent rate as estimated by the S. E. C.

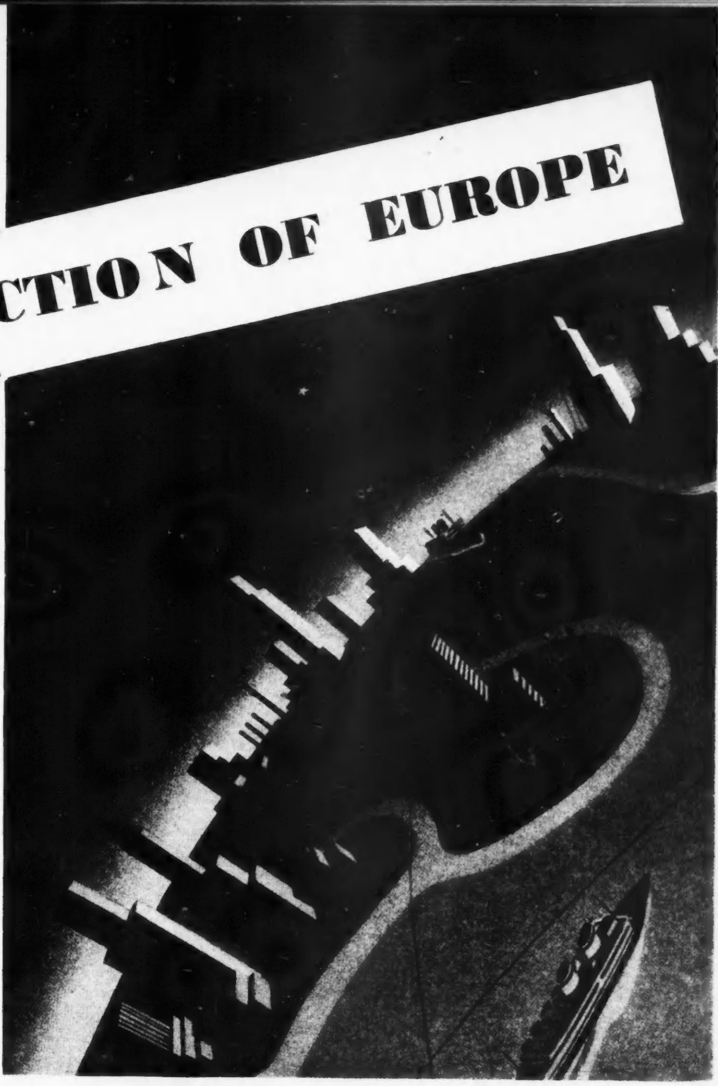
If anything in this world is certain, one certainty is that peace will usher in a protracted boom in the consumers' durable goods industries, headed by automobiles.

On that not unreasonable calculation the *cumulative increase* in spendable savings of the people during the years of our full participation in the war would work out as follows: 1942, $20 billions; 1943, $40 billions; 1944, $60 billions; 1945, $80 billions. Mind you, these huge sums represent net *increase* in savings, not total liquid savings. In projecting them, we also take no account of the present relatively rapid paying-off of consumer installment debt and open credit obligations—although such consumer debt retirement is another form of accumulating purchasing power for future spending.

The point we underscore is this: Whatever may be lacking in the foundation for early post-war economic activity, the trouble certainly will not be inadequate consumer purchasing power.

On the hopeful assumption that Germany is finished in a year and Japan in a year and one-half—and allowing a minimum of time for even partial demobilization and re-conversion of civilian durable goods indus- (*Please turn to page* 258)

RECONSTRUCTION OF EUROPE



How Will We Participate?- To What Extent?

BY V. L. HOROTH

Those who can win a war well
Can rarely make a good peace,
And those who could make a good peace
Would never have won the war.

Winston Churchill in "My Early Life."

THERE is hardly a more controversial and intricate topic to discuss, or a more complex and vast problem to solve, than that of the reconstruction of Europe and our participation in it. Not since the Thirty Years War (1618-1648) has the Continent known such destruction of life and property and such a thorough-going upheaval of political, economic and social institutions as during the Second World War. With major battles of the war still to be fought, the hungry, impoverished and vengeance-seeking Continent is yet to see many an unanticipated turn. As a matter of fact there may not even be an orthodox armistice to mark the end of the bloody "new order" of the Nazis and the beginning, amidst misery and chaos, of a search for a happier New Europe.

In this country, our own attitude on the problem of the reconstruction of the Continent of Europe is yet to be crystalized. Since the war has taken a more favorable turn for us, we are beginning to talk, perhaps too glibly, of the possibility of the Axis's collapse, yet there has been no definite program put forward as to the future organization of the Continent of Europe. Except for the tacit agreement that retribution should run its course, the anti-Nazi fronts even within individual countries are far from being united. It is true that most of us are appalled by the magnitude of the problem to be solved, yet we have taken relatively little trouble to understand what has been happening on the Continent.

We have and shall always have an enormous stake in the satisfactory solution of the European problem, not only because of our trade connections and investments

but also, as this war has once more shown, because of our own security. What shall be our approach? Are we going to dictate to the Europeans what kind of economic and political system that should embrace, or are we going to collaborate with them in building something new,—"re-educating" them as well as ourselves during the process? Will not Great Britain and the Soviet Union also have a good deal to say about the New Europe, since their security is closely involved? And what are the Europeans themselves expecting—those Europeans whose live have been uprooted by the struggle and whose opinions are now suppressed, not those who in the relative shelter of exile are hoping for restoration of the former status quo?

Although at the present time there is evidence that we are willing to partake in planning New Europe, and that we are conscious of the responsibilities which our position in the world implies, it is not at all unlikely that when the conflict is over reaction may set in. Such reaction would be quite natural. Disgust at Europe's feuds, a feeling of futility with regard to our aid, as well as the plain desire to shirk post-war responsibilities, are all very likely to reappear at the crucial time when the new post-war world is shaping. It has happened before.

In a sense, the Second World War began as a civil war of European peoples. Undoubtedly there was something to be said for the rebellion of the Germans and their Allies against those phases of the Versailles peace which divided the Continent into a large number of fully sovereign small States. However, it was not the political but rather the unlimited economic sovereignty of new states which caused the serious trouble, since each state within its own small area tried to solve its own problems in its own particular way without regard for the economic effects which those measures might have upon the Continent as a whole. It is unquestionable that such a system depressed the standard of living, not of Germany alone, by preventing a more free interchange of goods.

The chief trouble was that the Germans rebelled not only against the extension of the principle of self-determination in the field of economics—a weakness of the peace treaties which all Europeans came to acknowledge—but that they rebelled also against liberal democracy in political and economic spheres. In doing this, they encountered the strong opposition of other European peoples for the simple reason that they tried to set the clock back. Freedom of political expression has been dear to most European peoples, and none of them relished the idea of playing the part of a colony in an empire which Hitler hoped to create by military force—even if it meant a higher standard of living in the years to come.

There was still another weakness in the German solution of the European problem, aside from the fact that it was to be made at the expense of all non-German people in Europe. German Europe was to be self-sufficient—and thus subject eventually to the same limitation in the standard of living, against which the Germans rebelled.

In the meantime, between the war and the heavy-handed measures of the Germans, Europe has experienced revolutionary changes in her political, social and economic structure. The New Order, in reorganizing the Continent as a self-sufficient area, has swept away political and economic frontiers to an extent not realized even during the Napoleonic Wars. Never before have the European peoples been as mixed with each other, either as occupying forces or as workers in the Reich's factories. Never before have the standards of living of European people been as uniform as during this war. Never before was there a greater centralization of the European transportation system. Tariffs no longer are any obstruction to inter-European exchange of goods, and neither are the money exchanges which are all convertible at fixed rates into reichsmarks. Belgian and French factories are being removed to Hungary and Roumania, while Yugoslav and Slovak peasants labor in Northern France and Holland.

The Second World War has also been more thorough than the First in breaking down the class barriers of European society. It is rather paradoxical that Hitler, the champion of super-nationalism and anti-communism, has done more to destroy national particularism on the Continent and has come nearer to eliminating class distinctions in most of the European countries than all the pan-Europeans and radicals ever dreamed of accomplishing. The extent of administrative reshuffling of some older areas may be illustrated by the accompanying map of Yugoslavia. That country was divided and

Legal Food Rations (Normal Consumer) on the Continent of Europe in April, 1942

(in grams per week — 1 lb. = 450 grams)

Country	Bread & Flour	Cereals	Potatoes	Sugar	Meats & Products	Fats	Cheese	Eggs
Germany	2.000	150	2.500	150	300	205	50	½
Italy	1,050	625	250	115	100	150	60	1
Hungary	2,000	50	1r.	170	3m.d.	140	...	...
Bulgaria	2,100	250	free	free	2m.d.	250	100	free
Poland	1,490	...	2,500	100	130	80	...	...
Poland (Jews)	580	...	.....	40	...	...	...	...
Czechoslovakia (a)	2,000	125	2,000	250	300	165	...	½
France	1,925	...	930	115	180	100	50	...
Belgium	1,570	70	3,500	225	245	90	...	...
Netherlands	1,800	160	3,750	250	225	200	125	free
Greece	1,000	...	.....	110	...	...	...	...
Denmark	2,280	235	free	465	free	315	free	free
Sweden	1,625	115	free	375	220	250	60	1½
Norway	1,645	100	2,800	200	(b)	150	50	...
Switzerland	free	350	free	140	400	220	150	1½
Spain	800(c)	...	....	250	...	200	...	...
United Kingdom	free	free	free	225	450(c)	225	85	1

Blank—No information; 3 m.d. three meatless days a week; (a) Bohemia-Moravia; (b) Too scarce to be rationed; (c) Rationed by value (estimated what certain average exp. would buy per week.)

subdivided into about fifteen different administrative units without consideration whatever for national, social or economic premises, which the Nazis once advocated.

While these changes have been going on, the revolutionary scope of World War II has been broadened far beyond that of a mere struggle for reorganization of the Continent of Europe, which it essentially was in 1939 and 1940. Many other problems left unsolved by the First World War have been brought up for reconsideration, and whatever their solution may be, it will affect the post-war reorganization of the Continent. The relationship of white and colored peoples is also up for revision, with repercussions bound to affect the old-type colonial system. Thus Europe will also face a problem of readjustment to the non-European world. Moreover, the dominant position of Europe in trade, industry and finance will be further weakened as industrial emancipation and mutual exchange of goods of non-European countries progresses. The decline of economic power in turn is likely to have far-reaching consequences on the structure of Europe's future trade and on her purchasing power. The market for many European products will have been lost during the war to other countries, including the newly developed industries in Asia, Latin America and even Africa, while the value of overseas investments will probably have been in large part destroyed.

The full cost of the German attempt at reorganization of the Continent will not be known, however, until German authority collapses. It is not difficult to visualize the predicament in which the Continent will then be. People will be undernourished, exhausted and in an ugly frame of mind. Productivity of the land will be low, as after the First World War. Cattle herds will be reduced to perhaps one-third of their pre-war numbers and will take years to replenish. Industrial equipment

in general will be worn out, and there may be particularly serious shortage of equipment for the manufacture of consumers' goods. A few months ago all idle machinery—mostly used for consumers' goods—was ordered scrapped throughout the Continent, a measure which will greatly handicap the post-war reconstruction.

What will happen to Europe's financial structure is anybody's guess. It is already obvious in France and other countries that currencies will become unconvertible into non-European exchanges if they do not collapse completely. Possibly they may retain some purchasing power within the Continent, a development which may eventually aid in building it up as an economic unit. The purchasing power of savings will be down, of course, and the titles to property—land or securities—are likely to be in a state of utmost confusion owing to deals forced upon the owners by the Germans.

The first period of rehabilitation of the Continent of Europe will probably be marked by feeding the population and by providing industries with such raw materials as cotton and wool. Indications are that there is enough of both foodstuffs and textile raw materials throughout the world. The present carry-overs of certain foodstuffs such as bread grains, sugar, coffee, tea and cocoa, are large enough to give substantial aid for a prolonged period. The wheat surplus of the four leading non-European countries was around 1,500 million bushels last July, while the corn surplus of Argentina alone is reported at about 275,000,000 bushels. In the years immediately preceding the war, Europe imported about 300,000,000 to 400,000,000 bushels yearly from overseas. World supplies of protein foods are likely to be tighter, despite record production of meats and fats in the Western Hemisphere. The reason is, of course, that large surpluses of vegetable oils from Southeastern Asia are not accessible to the United Nations.

Should hostilities in Europe cease and large shipping tonnage be released for transportation of foods and consumer goods, no one would need to go hungry or be cold. However, the procedure of feeding and clothing Europe is likely to be different from that after the First World War. At that time Europe received credits and bought provisions outside of Europe at almost any price. The result was that even a greater expansion of agricultural and industrial material production outside of Europe took place than during the war itself. Naturally when Europe got back into production, the glutting of markets was just that much more serious.

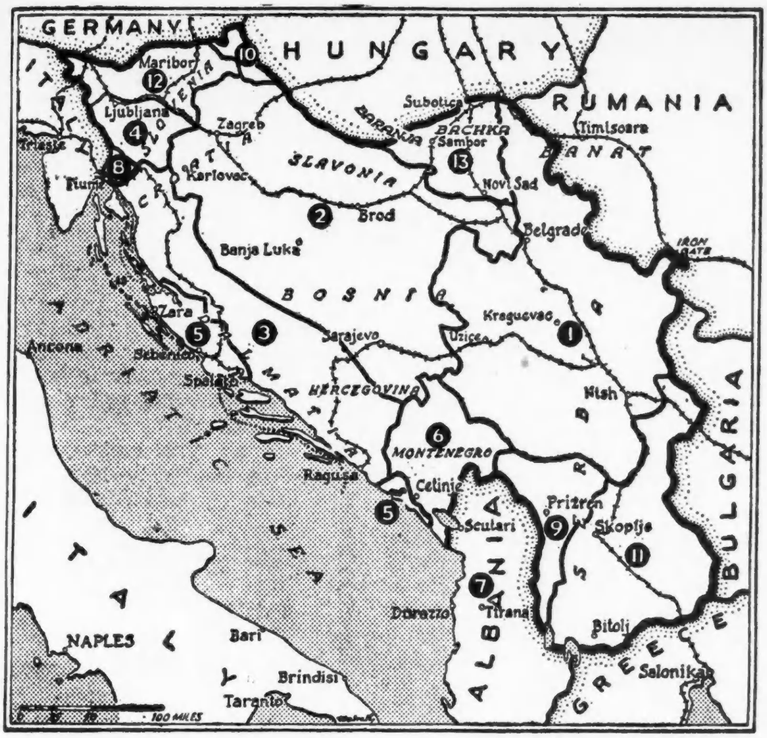
This time the job of feeding and clothing Europe will take the pattern of lend-lease aid. While consumer rationing in regard to protein foods and possibly leather products may have to be maintained here and in Europe for a long time after the hostilities stop, there will be no sudden expansion of production and subsequent painful readjustment to demand. Moreover, the payment for our aid is likely to be in services and goods rather than in gold.

Much more difficult, painful and extended will be the period of political and economic reorganization of the Continent and of its reinstallation within the framework of world economy. It is possible that, once German pressure is relaxed, there will be a considerable reaction to the idea of political and economic unification of Europe or of any regional confederation for that matter, for the simple reason that most of the reorganizing has hitherto savored too much of brute force. In fact, it is possible that Europe may for a time go through a period which, as the London Economist expressed it, will "hallow the pre-war conditions indiscriminately." In so far as this may give new life to such concepts as democracy, it is well and good; but the trouble is that much of the unsound nationalism, both in political and economic spheres, may be revived with it.

It is hard to say what the masses of Europeans think at present of the possible confederation of their Continent. It may be that much of the altruistic planning is nothing more than an escape from the horrible reality of the day. On the one hand, there seems to be still a good deal of division of thought as to what New Europe should look like. On the other hand, opposition to the Germans has often united such widely different groups as radicals and monarchists in Holland—hence the German epithet for their adversaries, "Orange bolsheviks." It seems, to quote again the London Economist, "that

Press Association

The British Ministry of Information in London released this picture from "Fighting French Forces" showing the extent of damage to a section of the Renault Motor Works at Paris after a bombing attack by the R. A. F. last March.



Reprinted from the New York Times

It will not be easy to unscramble the scrambled eggs that Hitler has made of Europe's economic-political organization. As an extreme example, look at the present 13 separate partitions of erstwhile Yugoslavia on the above map. 1—The puppet State of Serbia under General Milan Neditch, including part of Old Serbia and the Banat. 2—The "Independent State of Croatia," under Dr. Ante Pavelitch. 3—Parts of Dalmatia, Bosnia and Herzegovina occupied by the Italians. 4—Part of Slovenia occupied and "annexed" by the Italians. 5—(Two areas) part of Dalmatia occupied and "annexed" by the Italians. 6—Montenegro, occupied by Italians and Albanians and "annexed" in the name of Albania for Italy. 7—Albania (Italian). 8—Part of Croatia, occupied and "annexed" by the Italians. 9—Part of Serbia, occupied by Italians and Albanians and "annexed" in the name of Albania for Italy. 10—Prekomurje and Mudjurmurje, occupied and "annexed" by the Hungarians. 11—Part of South Serbia, occupied and juridically but not formally "annexed" by the Bulgarians. 12—Part of Slovenia, occupied and "annexed" by Germany. 13—The Bachka and Baranja, "annexed" by Hungary.

the Left in Europe now makes the main contribution in the sphere that used traditionally to be regarded as the domain of the nationalist Right—the maintenance of the spirit of national unity and the stirring of national consciousness."

There is no doubt that despite all the "gleichschaltung" or levelization of Europe by the Germans, there will remain deep cultural and temperamental differences that may stand in the way of federalization of the Continent or of parts of it. The Slavic countries of Central and Southeastern Europe, where the heavy hand of the Nazis has fallen particularly hard, may very well favor a collectivist form of economy. The occupation of these countries by Soviet troops and the nearness and increased prestige of the Soviet Union may well strengthen those tendencies. Eastern Europe is in bad need of industrialization as the only means of alleviating the pressure of population and of lifting the standard of living. The example of Soviet Russia's self-help will be strong, if the problem of Eastern Europe is not promptly faced.

On the other hand, the Latin Countries of Western and Southern Europe, with Roman-Catholic heritage and strong belief in individual rights, are likely to look upon the Soviet Union with suspicion and fear—although the collaboration during the war may allay some of these fears. These countries are more likely to look toward the New World or their colonies with which they are bound politically, economically and culturally.

Then there is, of course, Germany, whose cooperation must be eventually won if any kind of prosperity is to be achieved on the Continent. It may take years to convince the Germans to win their participation, but the beginning could be made during the period of military occupation by giving to them the same aid as to the other Europeans. This does not mean, of course, that Germany should go scot free.

No matter whether Europe organizes itself into one or two or three or more confederated areas, it will be a painful, slow progress, and to conclude peace hastily during this period of organization would be to invite mistakes made by the Versailles Conference. As Professor E. H. Carr of the University College of Wales expressed it in his thought provoking book, *Conditions of Peace*:

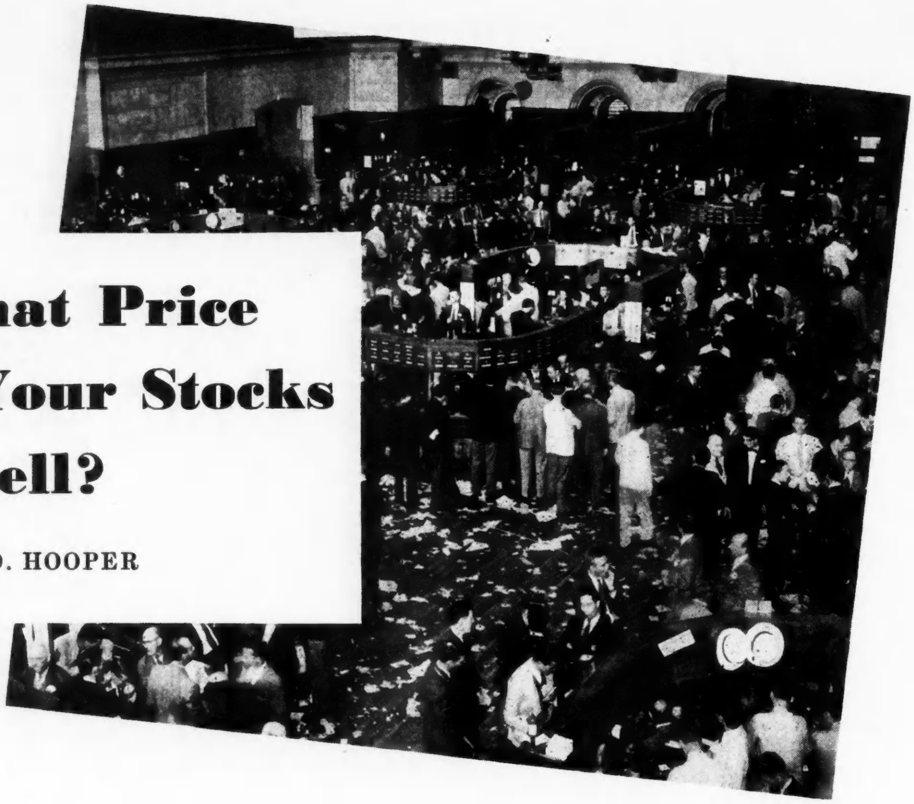
"After the present war it will be wise to recognize that peace making is not an event, but a continuous process which must be pursued in varied places, under varying conditions, by many different methods and over a prolonged period of time; and anyone who supposed that it will be complete within six years should be regarded with utmost suspicion."

Since most of the Europeans agree that there cannot be a return to the pre-war economic order where any small state would have a full economic sovereignty and since many new links among various European countries have already been forged by Hitler at terrific cost, it would be well nigh retrogression, if the existing inter-European organization be abandoned. Rather the United Nations would perform a real service to themselves as well as to Europeans in general, if they deliberately encouraged inter-European organization. The working out of such organization would have to be, of course, put on a different moral plane than that of the Nazis, and achieved through cooperation instead of coercion.

The Continent will need outside help to restart its industries and to stabilize its currencies. The loans, and they will be forthcoming mainly from the United States, Canada and Great Britain, could be made conditional to the freeing of inter-European channels of trade, to the establishment of inter-Euro- (*Please turn to page 254*)

At What Price Should Your Stocks Sell?

BY L. O. HOOPER



Ewing Galloway

CRUCIBLE STEEL, including the company's post-war credit, is expected to earn better than $17 a share this year. The stock sells at around 35, or at about two times 1942 earnings. General Foods probably won't earn more than $2.20 a share, yet the stock sells at 35 or for almost 16 times this year's per share earnings.

Issues like Illinois Central, Southern Pacific, Southern Railway and Beech Aircraft are selling for either a little more or a little less than indicated 1942 per share profits. Stocks like Dow Chemical and Monsanto are selling for 20 or more times expected profits for the current year.

Ten representative war industry shares sell at 1½ to 4 times earnings; ten representative peace industry shares sell at 10 to 18 times profits. Atchison is appraised at about two times earnings of $22 a share this year, while Norfolk & Western is selling at about 12 times what the road is expected to show for 1942.

Do these amazing differences in the market's appraisal of earning power make sense? Will they endure? Is the market trying to tell investors what to expect in the future? Or has a premature wave of optimism about the war caused investors to commit errors in judgment? Should the war shares be bought or should they be sold?

What Are War Earnings Worth?

In World War II, as in World War I, the stock market has assumed that war earnings are non-recurrent. Its measure of their value has fluctuated with (a) the outlook for taxes and (b) the outlook for the duration of the conflict. So long as a majority of stock buyers assumed that the conflict could be quarantined on the other side of the Atlantic, stocks were worth more than after the threat of American participation loomed. We had a "war boom" in stocks in 1915 and in 1916 just as we had in the fall of 1939. Then we had a "war threat decline" in December, 1916, as well as when France fell in the spring of 1940. Later we had a "tax threat" market in early 1917, and again in late 1941 and early 1942, marked more or less by America's two entrances into the conflict as a belligerent. And now we have a market which apparently has begun to discount peace, just as in the autumn of 1918.

Early in the war, back in the later months of 1939, I did quite a bit of independent research work about the probably effect of the war on stock prices. All of it led to the same conclusion—low price-earnings ratios, especially in the shares of companies profiting from the war effort. The tabulation in the box shows that the same type of discrepancy between the price-earnings ratios of war shares and peace stocks prevailed in 1915, 1916, 1917 and 1918 which prevail today. During World War I, Bethlehem Steel never sold at more than 5.3 times earnings; and at one time dropped to only 40% of the amount actually earned per share in the same year. Crucible Steel never sold at more than 4.4 times earnings. Yet American Telephone did not drop below 9.1 times earnings, Pullman below 8.9 times or Woolworth below 6.2 times. Furthermore, as the war approached its end, there was a decided tendency for the price-earnings ratios of

the war shares to decline and the price-earnings ratios of the peace issues to rise. In World War II, history simply is repeating itself. There is a different set of war shares and another lot of peace shares; but the general principles are the same.

Theory and Practice

Some fine theories can be spun as to the proper market value for war earnings. One of them is that war earnings are worth less than one times their face value because they seldom mean one dollar of additional dividends for one dollar of additional earnings. Thus, suppose a company has a "normal" earnings power of $2 a share and normally sells at 10 times earnings, if it earns $10 a share a year more in a war year it should sell for something less than 30. In the first year of the war, if it is assumed that the war will last for three years, and that the war will add $10 a share of earnings for each one of the three years, it might be said that the stock is worth something less than 50. In the second year of a three-year war, theoretically it would be worth something less than 40. In the third year, something less than 30; and in the first year of the peace, presumably it would be back to 20.

Now this is a theory which seldom would work out literally in practice. Actually almost any company engaged in war industry would either become stronger or weaker as a result of the experience; and the market probably would sense this qualitively if not arithmetically. For instance, du Pont and Bethlehem Steel both became much larger and better companies as a result of the start they obtained in World War I; and in this war companies like Consolidated Aircraft, Bohn Aluminum & Brass, Fansteel, Rustless Iron & Steel and American Export Lines promise to come out of the fray much stronger than they went into it.

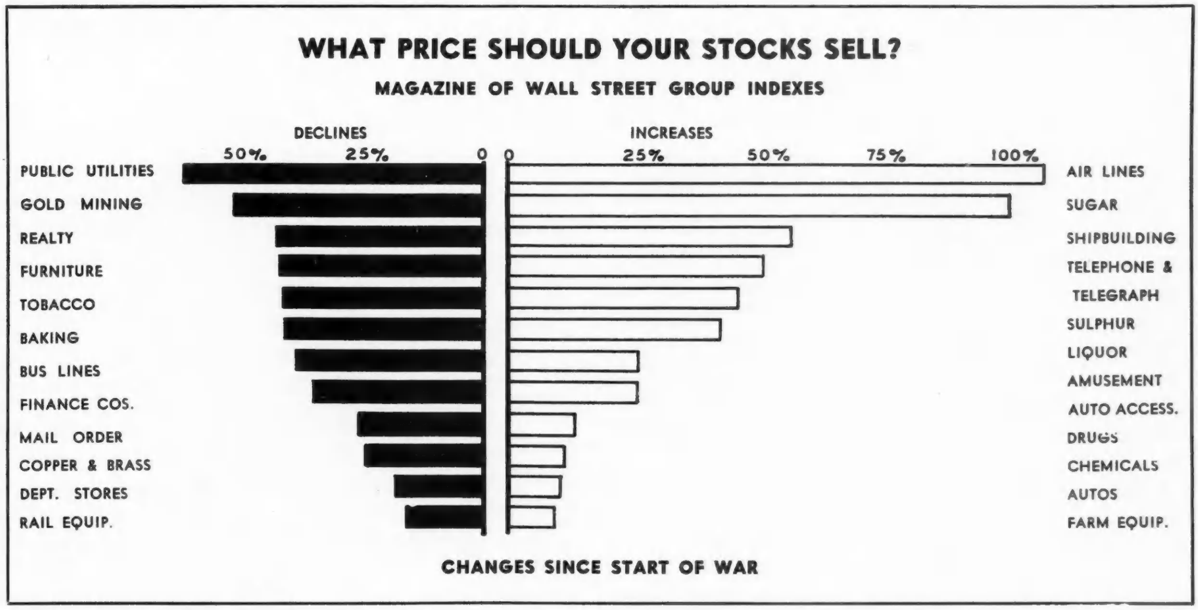
In such an intensive war economy as we have in World War II, also, it is difficult to differentiate with any degree of certainty between the war industry companies and the peace industry concerns. There are many "war or peace" stocks such as Chrysler, Minneapolis-Honeywell Regulator, General Motors, General Electric, Pullman and the rubber industry companies which not only are doing well in the war period but which promise also to do well in the early peace period. The shares of such companies ought to sell somewhere between the shares of the war industry concerns and the shares of the peace enterprise corporations. Most of them do.

The 100% peace industry company shares, of course, sell at a larger number of times present small earnings because investors recognize that these earnings are abnormally small; this is the same reasoning which makes the war shares sell at a small number of times current swollen profits.

But the market is always "making mistakes" in its valuation of individual issues. Is it not possible that it is at present overvaluing the shares of some peace companies and undervaluing the shares of some war industry companies? Unquestionably, but (a) how can we know what the misappraised issues are, and (b) when will the misappraisals be corrected?

The Matter of Post-War Values

The best way to appraise these war stocks is to recognize: (a) that the investment public is going to have a prejudice against them so long as the war news is good and indicates a relatively short war; (b) that the earnings applicable to them are not worth anything like as much as peace earnings; (c) that if the war is long, earnings will be reduced by sharp tax increases; (d) that each war issue is entitled to a different valuation because no two of them involve the same type of post-war situation; and (e) that much thought should be given to the worth of the individual stock after the war is gone and past. The first four points are so axiomatic as to call for little expansion. The fifth consideration should be developed in detail. Perhaps the best way to do it is to cite some actual issues.



First, let us consider a few almost "Simon pure" war industry companies. Savage Arms, after the war is over, probably will again become a rather unimportant manufacturer of washing machines and sporting goods. It probably will have an earning power of something like 25 cents to $1.25 a share per annum against better than $5 a share in 1941 and perhaps $3 a share this year. Whether the stock is worth 10½ depends on how big cash dividends are paid while the war business is liquidated and on how war contracts for munitions finally are washed out.

Aluminum Company of America, selling around 100, may earn better than $20 a share again this year. The aluminum business has sustained a tremendous expansion during the war period and probably never again will be as small as in the late 1930's. It is quite possible, however, that the end of the war may find an enormous oversupply of the new metal both in scrap and virgin form. The principal unit in this most promising industry conceivably could pass through a difficult adjustment period in which deficits would replace earnings and financial position might even become uncomfortable. Perhaps the stock at five times earning is overvalued.

Bohn Aluminum & Brass, on the other hand, is a fabricator of aluminum rather than a producer. Its business should be stimulated rather than hurt by a huge oversupply of cheap alumnium. Before non-cash reserves and including its post-war excess profits tax credit, profits this year easily could reach $10 or $12 a share against a current price of 36. Capitalization is simple and small. Earning power in pre-war years often justified, and created a market price better than that now prevailing. There seems no doubt whatever but that Bohn will be a better company in the post-war period than in the pre-war years. It will have about the same capitalization, more plants, more working capital, more business, and probably more earnings. This is a typical "war or peace" issue and seems to represent a very promising company.

A few facts about the aircraft industry stand out: (1) it has not increased its capitalization during the war period, the government supplying most of the working capital and plants to accomplish the most spectacular expansion in production; (2) in the peace years it will be a bigger industry than it ever was before the war, for the war has greatly stimulated technological development and popular acceptance; (3) unquestionably, however, it faces a great contraction in production after the war as well as an accumulated overproduction of planes; and (4) it is going to be very difficult for some companies to unscramble the present confusion between government owned and privately owned facilities.

Certainly Consolidated Aircraft can't continue after the war to provide employment for about 100,000 workers; Curtiss-Wright and United Aircraft can't expect to find a demand for the present volume of airplane engine production; some of the automobile companies may wish to continue production of planes and engines in the post-war period; Lockheed and Douglas are bound to have competition from Consolidated and Boeing in the production of transport planes; and, however optimistic one is about the future of air transportation, the inevitability of a readjustment and a reorganization in the industry must be recognized. The question on the accuracy of the market's present judgment of the value of the aircraft manufacturing shares, therefore, rests on what they are worth "ex-war," not on what they are earning now.

Frankly, I don't know how to answer it. I surmise that one ought to look for efficient and wise management more than for assets or present earning power. I am rather favorably impressed with the managements of United Aircraft and Consolidated Aircraft. I have grave doubts about some of these smaller and lesser known companies which have benefited from windfall orders which could be filled profitably regardless of cost through the aid of a government desperate for air power. I have no doubt whatever that the aircraft industry has done a wonderful job in this war, but there is every evidence that it is working itself into a position where that job is nearing accomplishment. It is difficult for me to see wherein the aircraft shares are attractive even at only two or three times current per share earnings.

On the other hand, it it quite possible that the pessimism about the steel (*Please turn to page 256*)

Price-Earnings Ratios in World War I

(Stock sold times per share earnings)

	1915		1916		1917		1918	
	High	Low	High	Low	High	Low	High	Low
WAR STOCKS								
American Can	13.5	4.9	5.6	3.6	2.4	1.4	6.7	4.6
Amer. Woolen	9.0	2.5	5.3	3.3	2.9	1.8	4.4	3.2
Bethlehem Steel	5.3	0.4	2.4	1.4	3.3	1.3	4.6	2.9
Crucible Steel	2.4	0.4	1.0	0.5	4.4	2.2	3.1	2.2
Hercules Powder	7.0	2.0	1.8	1.3	4.0	3.0	9.2	7.4
National Lead	14.4	9.0	12.3	9.3	4.1	2.5	4.9	3.0
U. S. Steel	9.0	3.9	2.7	1.6	3.5	2.0	5.3	3.9
PEACE STOCKS								
Amer. Tel	13.6	12.1	13.6	12.6	13.5	10.3	10.9	9.1
General Cigar	10.9	6.9	12.1	8.0	8.1	5.5	8.0	4.8
General Elec	16.1	11.9	10.2	8.7	6.2	4.3	10.6	8.6
Nat'l Biscuit	16.1	14.2	13.4	12.2	12.4	8.1	9.5	7.7
Pullman	19.2	16.9	16.7	15.1	14.2	9.0	11.7	8.9
Sears, Roebuck	....	...	9.0	6.5	13.0	6.6	10.9	8.3
Woolworth	9.1	6.2	9.2	7.7	10.8	7.1	10.3	8.9

War Babies Which Sold Higher After the 1918 Armistice

	1918 High (Late War)	1919 High (Early Peace)
American Can	50¾	68⅝
American Woolen (common)	60⅞	169½
Bethlehem Steel	96	107¾
Baldwin Locomotive	101¾	156¼
Central Leather	73⅝	116½
Crucible Steel	74⅞	261
National Acme	33	43½
National Lead	69¾	94½
New York Shipbuilding	47½	78
Republic Steel	96	145
Savage Arms	80½	94½
Submarine Boat	20¼	20⅞

Note: The spreads presented are from the highs of 1918 to the highs of 1919. If the spreads were made from the lows of 1918 to the highs of 1919, the showing would be much more impressive. On this basis, eight of the above stocks more than doubled in price.

Gendreau Photo

BY WARD GATES

What Will It Take To Pay For This War?

On the last day of November the debt of the Federal Government passed $100,000,000,000 It is now increasing at a rate of roughly $6,000,000,000 every month, and our war spending is not yet at its peak. So the debt inevitably will cross $200,000,000,000 within the forepart of 1944.

Will the war be over in eighteen months? That is anybody's guess. If not, then $200,000,000,000 will not be the maximum in Federal debt. The debt peak might be $250,000,000,000 or $300,000,000,000 or even more—nobody knows.

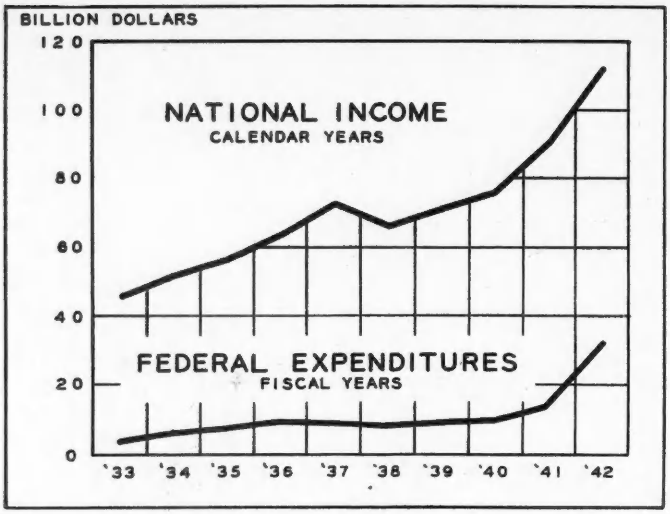
These sums are so huge as to be almost beyond comprehension. In 1938, according to Census estimate, the total wealth of this country—land, buildings, machinery, utilities, railroads, ships, pipe lines, gold and silver bullion, all goods, etc.—was $309,000,000,000. Do you remember—back when New Deal "pump priming" deficits were maybe $3,000,000,000 to $5,000,000,000 a year—how hotly the debate raged on whether or not the nation could "stand" a debt of more than $50,000,000,000? That has long since been settled. We are already "standing" a debt double $50,000,000,000, without any semblance of the "run-away inflation" or the "breakdown of confidence in the dollar" or the "general chaos" that some of the more foolish had warned against.

Yet we know there *has* to be *some* limit on Government debt. We know that limitless increase in the volume of currency—or in the bank deposits created on the credit of the Government—would progressively destroy the worth of the "promises to pay" that the Government makes to its people and that people make to each other.

Among millions of quite sincere citizens the fear of excessive Federal debt and of uncontrollable inflation is very real. It cannot be laughed off. While it would be a mistake to exaggerate the danger, it would also be a mistake to minimize the problem and to fail to take adequate steps to deal with it.

The familiar circumstances of fiat money inflations in Germany and France have often been cited as "horrible examples." For various solid reasons, these analogies have scant meaning in relation to our situation. One of the most significant, and hopeful, psychological differences is this: when Germany and France embarked on their drastic inflations, one did not hear public officials warning of the danger from the housetops nor was there excited public discussion about it. The overwhelming majority of the people were unaware of the reality until inflation reached the galloping stage. Here Federal spending and debt, taxation and methods of borrowing, savings and price control, etc., are matters of endless and almost daily discussion in the newspapers and magazines, over the radio and in private conversation.

History records no instance of a disastrous inflation that was so thoroughly "advertised" in advance—and it probably never will. Quite aside from the mechanistic controls that are available to us, it seems to the writer that there is a real and great measure of protection



against ruinous inflation in the mere fact that people and the Government officials are so thoroughly and openly agitated about it.

Maybe we are not giving sufficient credit to our own intelligence as a people. If we were stupid, most of us would right now be spending our money for tangible things as fast as we got it—scared by repeated public warnings by Federal officials that money is in danger of losing purchasing value. Instead, we are buying war bonds and striving to build up our bank accounts so we can pay the much heavier taxes due next March and the additional taxes that we figure probably will be enacted before long.

During the first year of our full participation in the war the Government "raised" about $65,000,000,000, including at least $9,000,000,000 to be obtained in the early December bond-selling drive that is off to an excellent start as this is written. Of this large sum, less than $16,000,000,000 came from tax revenues. The rest—nearly $50,000,000,000 — was borrowed from various sources.

During 1943 the financing of the war will probably be a $100,000,000,000-job or very close to it. Where is the money coming from?

Three Ways to Get It

There are only three general sources: (1) taxation; (2) borrowing the savings of the people; (3) borrowing from the commercial banks. The last-named method consists of the creation of commercial bank deposits to the credit of the Government and is directly inflationary. The other two methods are non-inflationary.

Modern governments may lose a war through shortage of men or munitions—but never through shortage of money. The Government has, and exercises, a virtually complete control over the commercial banking system. It can get "invisible greenbacks"—that is, spendable deposits created by sale of Treasury paper to the commercial banks—in *any* conceivably necessary volume.

Out of roughly $50,000,000,000 borrowed this year, "bank money" inflation will have supplied about $20,000,000,000 or $4 out of every $10. The other $30,000,000,000 will have been obtained from sale of Treasury obligations to individual investors, savings banks, insurance companies and Federal trust funds.

Existing taxes are expected to yield some $25,000,000,000 in 1943, leaving $75,000,000,000 to be borrowed. Unless the taxes payable in 1943 are boosted and/or a compulsory war-bond-savings program is instituted, from 50 to 60 per cent of this $75,000,000,000 will be had from the commercial banks via deposit money inflation.

Since it is so easy for the Government to raise money through the commercial banking system, why should the people be called on to pay heavier and heavier taxes, to cut their spending to the bone and to invest their surplus income in low-yield Government bonds?

The answer is very simple and obvious. Although a very considerable degree of bank money inflation is unavoidable and can be "managed," that does not mean that it is *desirable*. At best, the unavoidable minimum of bank money inflation—at a time of dwindling supplies of civilian goods and services—will exert a powerful inflationary pressure on the price structure and the cost of living, which can be kept within reasonable bounds only by tightening Government controls, including much more extensive rationing of many types of goods, and only by the continuing exercise of thriftiness in our personal spending.

Two Great Dangers

To inflate the bank money supply, and/or the currency in circulation, more than is absolutely necessary would present two very great dangers: (1) The more the supply of new money is expanded, the stronger will become the pressure pushing up against the commodity price structure and the harder it will become to repress the rise in the cost of living through price ceilings, rationing, etc. (2) The fact, or even the appearance, of a "loose" handling of the war financing problem by the Government inevitably would bring on an eventual destruction of public confidence in the basic integrity of the monetary system, and then the fat would really be in the fire. It is one thing to approach a limited Government debt—however huge by past standards—and a wholly different thing to gallop or drift toward a Government debt without *any* foreseeable limit.

The policy to date has been far from reckless. Taxes have been raised severely. Strenuous efforts have been, and are being, made to sell large totals of war bonds to buyers other than the commercial banks. But are we holding monetary inflation to the absolutely unavoidable limit? Obviously, the answer is no. As is natural in a democracy, we have approached the most painful decisions with none too much speed and resolution—the politicians more slowly than the people.

Though sharply increased, our income taxes for the great bulk of the people are still very much lower than in England or Canada. On a per capita basis—and also relative to national income—our voluntary purchases of war bonds have been much lower than in England or Canada. Our program to control wages and farm prices was slow in development and is far from completely suc-

cessful. The retail price ceiling move was belated and, taken alone, is hopelessly inadequate as an anti-inflation device. The New Deal advocates of deficit-financing have given every appearance of welcoming the war-time opportunity to spend as freely as possible—as evidenced by extreme reluctance to accept any significant reductions in non-war spending except those that were automatic and beyond their control, such as the decline in unemployment relief.

Widening "Inflation Gap"

Despite the higher taxes enacted this year, the "inflation gap"—that is, the difference between the total income of the public available for spending and the total estimated supply of goods and services—is getting wider rather than narrower. Unless the new Congress adopts a much more severe tax and forced savings program than well qualified observers at Washington anticipate, this gap will be far wider in 1943 than it has been at any time in 1942. A spokesman for the Treasury has recently forecast that the public's money income next year will approximate $125,000,000,000, that taxes paid by individuals under present law will be around $15,000,000,000, and that the total supply of civilian goods and services—at present prices—will approximate $70,000,000,000. That would leave $40,000,000,000 available for savings—or for absorption by rise in the cost of living. Judged by present indications, about the most that could be expected of voluntary war-bond purchases by the public would be $12,000,0000,000 during the year—still leaving an "inflation gap" of $28,000,000,000.

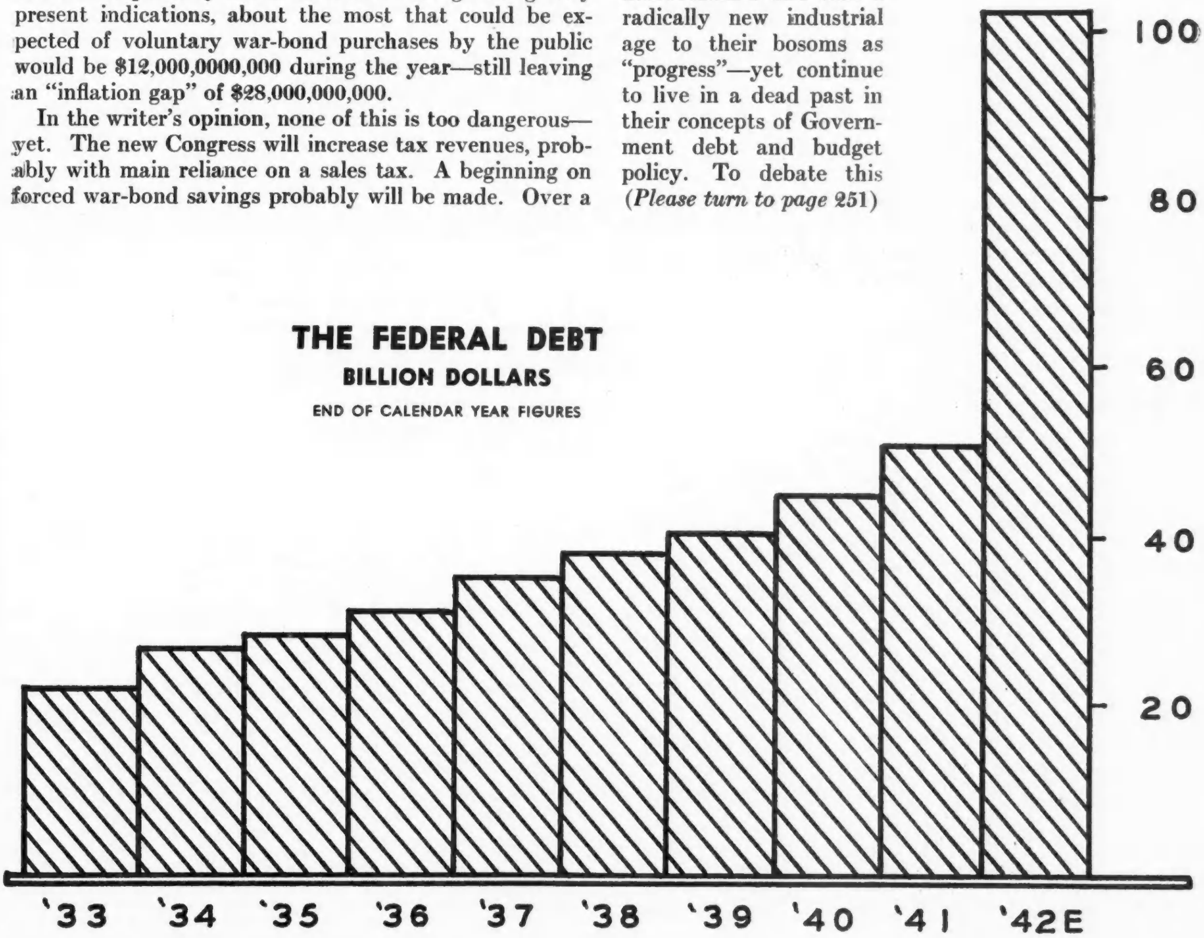
In the writer's opinion, none of this is too dangerous—yet. The new Congress will increase tax revenues, probably with main reliance on a sales tax. A beginning on forced war-bond savings probably will be made. Over a much increased area of consumer spending ration tickets, rather than money, will be the effective purchasing power.

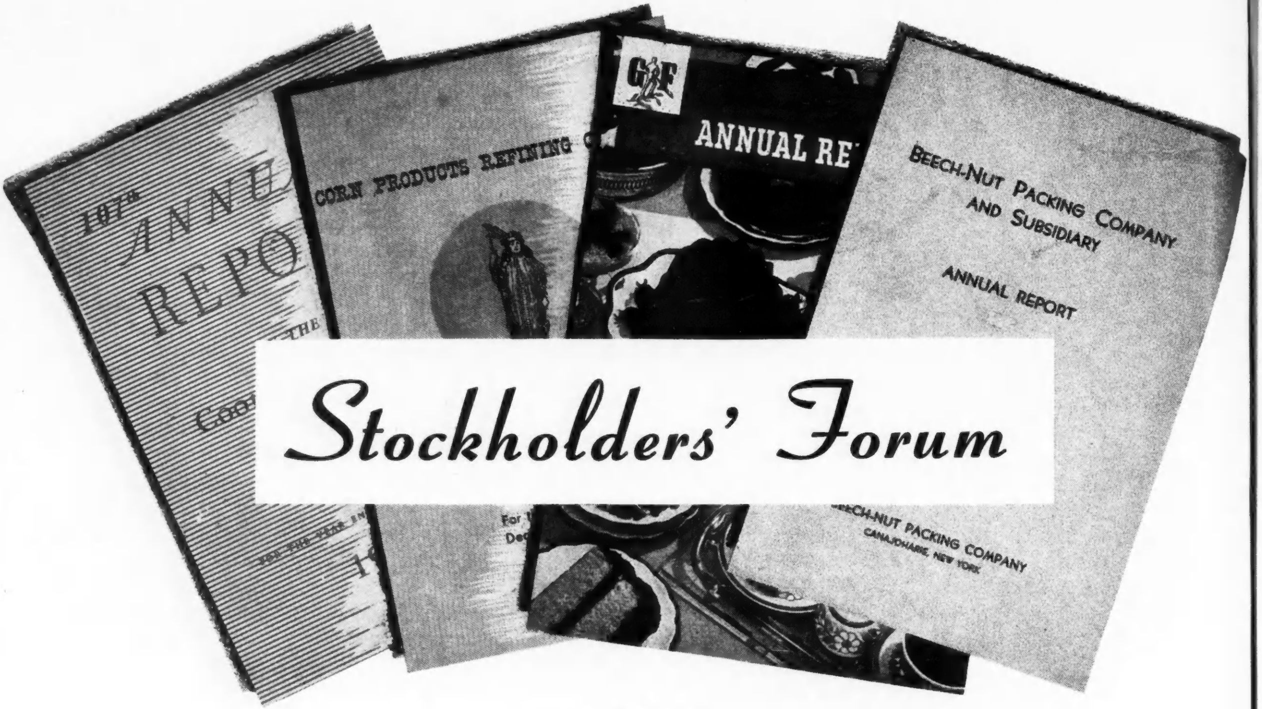
While these additional anti-inflation moves will not be as drastic as some would favor, neither will the policy be loose enough to undermine public confidence in our money.

There are two other psychological considerations of much importance: (1) It is now justifiable to hope and expect that we shall win the war within another one to three years. Expectation of a shortened war will proportionately increase confidence in the Government's fiscal position and prospect. In relation to public fear of the possible monetary consequences of large Federal debt, the "shorter war" psychology is itself anti-inflationary. (2) Strong opposition gains in the recent Congressional elections are also anti-inflationary—much more so psychologically, which is what counts, than in reality.

On an average, the classes of people who account for the larger part of our total individual savings and investment "feel better" about the political trend and to that extent are less scared of the prospective debt.

In production and technical innovation we are doing things that formerly would have been considered incredible, impossible or miraculous. Our financial conservatives cheer these achievements and take a radically new industrial age to their bosoms as "progress"—yet continue to live in a dead past in their concepts of Government debt and budget policy. To debate this (*Please turn to page 251*)





Stockholders' Forum

What Is Missing In Corporate Reports?

WITHIN a few weeks the great majority of listed corporations will begin the preparation of their 1942 annual reports. These reports represent the most important single link between absentee stockholders and corporate managements.

Only through them can the average shareholder be informed adequately of the various factors affecting his company's operations, and of the results attained as reflected in sales, profit margin on sales, total net profit and financial status. On the other hand, the annual report is the most practical single device by which corporate management can—if it chooses to do so—cultivate, and justify, the confidence and good will of the stockholders.

Vital Data Often Lacking

Judged by the missing information—the information that ought properly to be in annual reports but which isn't there—all too many managements are subject to valid criticism. These run a wide gamut—from those which reveal the absolute minimum of information that they think they can "get away with" to those which take partly justified pride in elaborate reports which nevertheless leave out something that every stockholder ought to have presented to him. In the latter cases what is most usually omitted is adequate information about the executives who manage the enterprise and what they pay themselves for so doing.

Recently the General Foods Corporation sent a lengthy questionnaire to its stockholders, seeking their "slant" on a variety of matters with the general objective of improving the forthcoming annual report. At the same time, editors of various financial and business publications—including this one—were asked to make any suggestions they cared to.

Sample of Good Annual Report

Now General Foods is a progressive, top-flight company. In a competitive field—characterized, quite aside from war conditions, by a long-term decline in profit margins per dollar of sales—the management has been able to obtain a major expansion in gross volume and to maintain over the year an average level of earnings and dividends which gives reasonably-minded stockholders no cause for criticism on this score.

This company's last annual report took 26 pages, was written in layman's language, was nicely illustrated and was wholly adequate in its coverage of such matters as sales, profits, taxes; markets, product development, research; war losses on foreign properties, other effects of the war upon the company; inventories and method of their valuation: condition of plants and equipment; expansion of investment in facilities; pricing; employee relations; and the usual balance sheet itemization.

The report makes easier reading than most. For a quick review it tabulates comparative figures of the

preceding four years on net sales, net profits, net income per common share, total taxes, taxes per common share, total common dividends, common dividends per share, total preferred dividends and per share, total number of stockholders and total number of employees.

In addition, for the entire life of the present corporation back to 1922, there are tabulated annual sales, earnings and dividends. Information on the various types and amount of taxes paid is exceptionally detailed. Besides the formal balance sheet, there is a "pictorial balance sheet" for the two preceding years, showing at a glance in bar-chart form total assets and liabilities and the relative proportions of the main types of assets and liabilities.

Suggested Improvements

This publication would offer one suggestion and several criticisms.

To most General Foods stockholders, the more important operating executives are known merely as printed names—not at all as personalities. We think there should be a section in all corporate reports carrying photographs of the operating officers, including vice-presidents, with brief but adequate biographies of their business backgrounds.

Our criticism is: (1) the report contains no information on the remuneration of the officers, either individually or as a group; and (2) its one short paragraph of comment on "extra compensation" is inadequate for full understanding by most stockholders.

It is true that proxy statements, by requirement of the S E C, list the remuneration of the three officers receiving the largest sums. We think this information also properly belongs in each annual report, thus permitting the shareholders to consider it in relation to the whole picture of the company's operations. We also think this information should not be confined to the three top executives but should be stated for all officer-directors. In addition, we believe individual stockholdings of directors should be stated in annual reports instead of only in such proxy statements as relate to stockholder election of director nominees.

Statement of Officers' Compensation

It should be emphasized that we are not criticizing the amount of remuneration paid to General Foods' officers but merely the failure to state it in the annual report. It should be further emphasized that omission of this information in annual reports is common practice with practically all corporations, and that we are citing the example of General Foods at some length in this discussion because it invited suggestion and criticism. The fact that it extends this invitation to stockholders and certain outsiders is in itself very praiseworthy.

As a matter of fact the remuneration of the three top General Foods executives, as stated by Chairman C. M. Chester before the last stockholders' meeting in April, looks moderate in relation to the assets administered, the sales attained and the profit earned. From a similar perspective, no doubt aggregate remuneration of all managerial executives would be found to be also moderate.

We don't suggest that executive remuneration be stated in annual reports only as a bald figure or set of figures. In these days when so many feel a deep concern—and some doubt—regarding the future of private enterprise, it is highly desirable that management do its utmost to cultivate the good will of stockholders, employees and the general public. It is sound and constructive policy not only to state executive remuneration but also to present it in graphic relation to sales, earnings, etc.

The General Motors' annual reports are excellent examples of this type of presentation—although they, too, fail to state individual executive remunerations. This company's last report stated that 192 persons were considered to be "managerial executives" and explained the basis of the designation. Then it showed that aggregate remuneration of the entire group for 1941 amounted to 4 4/5 cents per dollar of net profit; 22 cents per share of common stock in comparison with $4.44 earned per share in 1941; 2/5 of 1 cent per dollar of total sales volume; and 1 2/5 cents per dollar of total payroll. This report also states the total number of individuals receiving salaries of $10,000 or more, by salary groups. Thus, for 1941, $10,000 to $20,000, 325 persons; $20,001 to $30,000, 49 persons, etc.

Since there is now the so-called $25,000 salary limit by "executive law," it may be argued that executive remuneration should no longer be a matter of stockholder interest. But this order is not retroactive and applies to less than two months of 1942 remuneration. Moreover, at the present time there are signs that Congress may not improbably get around to repealing this law—that it never passed in the first place—before we have gone very far into 1943.

Cultivating Public Good Will

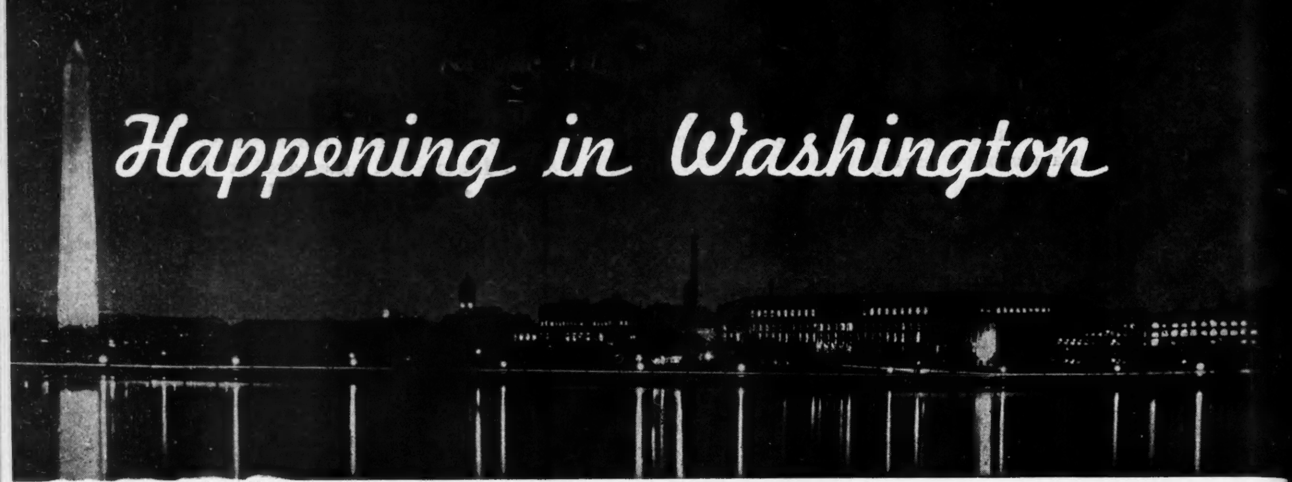
With relation to some elements both in the Government and in organized labor, private enterprise—despite its performance in war production—remains on the defensive. That is all the more reason why—both through scrupulous fair-dealing and a policy of full frankness in corporate reporting—managements should strive always to win the maximum confidence and support of stockholders and the general public.

The paragraph heretofore referred to in the General Foods 1941 report on "extra compensation" reads as follows:

"No action on a 1941 Profit Incentive Plan Fund was asked of stockholders at the 1941 annual meeting. Consequently the Consolidated Statement of Profit and Loss for 1941 on page 22 does not reflect a charge to earnings as a provision for the payment of such a fund. In accordance in authorization of the board of directors, provision was made out of 1941 earnings for the payment of a year-end extra compensation to all employees—except officer-directors and employees eligible to participate in a Sales Incentive Plan—including certain managerial employees who have heretofore participated in the former Profit Incentive Plan."

In a report which makes easy reading nearly everywhere else, this sounds like "lawyer's language" to us. There was no extra compensation under the former Profit Incentive Plan, but there (*Please turn to page 250*)

Happening in Washington



Charles Phelps Cushing Photo

By E. K. T.

Ration banking, when put into effect nationally, will employ the services of about 14,000 banks with a total of 18,000 banking offices. These include every commercial bank in the country that carries checking accounts. Banks will act as agents of the Office of Price Administration and will be paid on a cost basis by the O P A.

Washington Sees:

As a result of the elections the membership of the incoming 78th Congress gives every indication that the days of "rubber stampism" are fast ebbing. The President faces a new national legislature that will be less willing to do his bidding unquestioningly.

So far as appropriations are concerned, however, it doesn't make much difference to the President whether he has a firm control over the next Congress or not. The Congress which passes out at the year end has been appropriating money at a rate vastly greater than the Government's ability to spend it. At present there is a backlog of more than $100,000,000,000 of funds which have been appropriated but which remain unspent. Take a look at the lease-lend account alone. The President's recent report to Congress on lease-lend activities showed that while $69,944,650,000 has already been made available to him by Congress for purely lease-lend purposes, lease-lend aid is being provided at the rate of only about $8,000,000,000 a year.

Even in the present Congress many of the Administration's own supporters among the Democratic ranks have shown a disinclination to go along with the President on his requests for legislation. The new Congress is sure to give much closer scrutiny to the proposals that come up from the White House.

Government officials and representative bankers are now working out plans of giving the banks details of the system.

Inflation note: Early Christmas buying boosted sales of all retail stores to $5,310,000 in October. This is the highest for any month on record except December of 1941. Compared with October of 1941 it represents an increase of 13 per cent over the $4,711,000,000 of retail sales in that month.

Food goals for 1943 show the need for foods of most value in the wartime diet. They call for maximum milk production, more meat and eggs, more feed grains to support increased livestock production, more dry beans and peas to supply proteins in the diet, more poultry to supplement supplies of other meats, more of the vegetables essential because of their high food value, more oil crops, less short staple cotton but more long staple cotton. One of the most critical needs in 1943 will be for milk and dairy products.

Treasury drive which is now under way to raise $9,000,000,000 in new money places on commercial banks a burden which they have to assume. Proportion of capital to liabilities has to be reduced and normally unwarranted risks have to be taken. There have been assurances, however, that this will not bring trouble with bank examiners. Presumably the Federal authorities are acting on the assumption that this contemplated risk is less than that which would result to the economic structure from a failure of the Treasury's program.

Mass movement of civilian population to centers of war industry since the 1940 census was made are not startling the country as a whole. Those centers in which the civilian population increased showed a total gain of only 6.8 per cent of their 1940 figures. In certain areas, however, very large gains were made. Greatest percentage increase was registered in San Diego, where population increased over 35 per cent.

Limitation on private investment income faces stiff fight. When $25,000 net salary limitation was imposed by executive order after Congress refused to legislate an income ceiling at the President's request there were howls on Capitol Hill. Main shriek was that salary ceiling was unfair because coupon clippers were allowed to escape. Now the Administration is going to give Congress the opportunity to correct this inequitable situation. The lawmakers will be asked to extend the limitation to cover investment income, presumably at a $25,000 net level. But they may reply by doing away with the salary limit.

President is expected to ask for such a ceiling in the new tax bill. While wage stabilization act gave him authority to act on wages and salaries it did not include control over investment income.

Tip-off was given by Mrs. Roosevelt weeks ago. At her press conference held after her return from Great Britain she told newswomen she felt disturbed that investment income was not covered by the $25,000 net ceiling. "I was assured we would tax that, too," she stated.

More money is in circulation today than ever before in the history of the country. Currency outside the Treasury and Federal Reserve banks has risen to the unprecedented figure of $14,465,000,000. This is $9,500,000,000 above the level of the boom year of 1929. The peak has not been reached.

Look for a counterattack from the Army if the Office of Defense Transportation sets a mileage limit on operation of motor trucks. Army is dead set against any such restriction. This is one of the pricipal reasons why ODT has so far refrained from imposing the restriction. Army regards unlimited trip mileage as necessary in the war effort for transportation of military supplies. If ODT acts, Army will seek supervision over truck transport.

Office of Price Administration will seek to clamp down on radio and other news commentators to restrain from speculating on possible rationing moves. O P A feels comment about what is to be rationed and when and how fosters panic buying.

Look for continued expansion of the dehydrated foods industry. For a while W P B felt existing plants would be sufficient to meet contemplated needs and discouraged expansion in the field. W P B has changed its views. It is no longer discouraging plants suitably equipped to get into production.

W P B Requirements Committee, which decides for what purposes critical materials can be used, has approved a "bank of metals" to permit wide expansion of dehydrated food production, as well as quick freezing, next year.

Textile manufacturers with dryers in their plants are rushing to consult with W P B officials for the purpose of entering the food dehydration business.

Reason for the rush is the need for dried food. Outlook is that one billion pounds of dehydrated foods will be needed in 1943. Expansion of the industry is necessary to accomplish this task. Some three dozen foods are now being bought by the Government in dehydrated form. List of new foods that can be satisfactorily dehydrated is constantly increasing.

Office of War Information will take over direction of publicity and promotion of Government nutrition program. Prospects of food shortages, rationing and other uncertainties make it difficult for OWI to chart its course now. OIW will get its information program under way after the new year when it is hoped the situation will be clarified.

Office of War Information will stop pirating technicans from domestic radio stations. Officials of O W I overseas branch have been offering station employees more money and draft deferments to lure them away, one company complained. O W I promptly promised to discharge any official engaging in this practice.

Transmitting equipment is growing scarce. As a move to permit many broadscasting stations to continue operation which would otherwise be forced to remain silent at least for temporary periods, the Federal Communications Commission will develop a "pool catalog." Stations will be asked to list their usable surplus equipment so it can be made available to station in need.

Trend of film consumption by the Army, Navy and Government agencies continues upward. Hence, W P B will order the motion picture industry to take another cut in raw film starting at the first of the year. At present producers and distributors get 10 to 24 per cent less celluloid than they had available in 1941. During 1943 they will get 12½ to 30 per cent less than 1941 normal.

All-over saving of film stock will amount to 25 per cent. This will be used by armed services and Government agencies.

New slash in film allotment will cut down on production grade B pictures. Difficult shots requiring more film than usual photography will be kept to a minimum. Stars will be given more time to rehearse their lines in order to eliminate retakes.

You will not see the much publicized Warner Brothers newsreel idea develop into reality. W P B is distinctly cold to the idea. It feels that the five newsreels already in operation are plenty to satisfy the needs of the motion picture public.

There's a good chance that existing newsreels will have to alternate releases. Competing newsreels usually cover the same "stories" and take different shots to avoid close similarity. One proposal to conserve film is to let newsreels alternate release dates and work out a pooling arrangement for the distribution of news footage in the same manner that the large agencies are pooling news dispatches. Odds favor its adoption.

The additional 27,000 barrels a day of oil that Petroleum Coordinator Ickes has promise will flow into the East as a result of pipeline adjustments is nothing to get excited about. This additional movement had already been counted on in forecasts of supply for the coming winter. It will not effect the current oil shortage situation.

Tire turn-in program is not coming up to expectations. Only half of the tires which have been turned in to the Government thus far are usable in their present condition or can be made usable by repairs or recapping. In some cities rate is only one third.

HAVE MACHINE TOOLS DISCOUNTED PEACE?

BY OWEN ELY

Westinghouse

MACHINE TOOLS are considered a war industry, since operations have grown many-fold to re-tool American factories for war production. Moreover, it is a highly cyclical industry: machine tools form the base of our industrial revolution but in periods of depression their output sinks to low levels. The Federal Reserve index of machinery production in September reached 305 compared with a low of 36 in 1932.

A price index of machinery stocks in 1929 reached 150, in 1932 dropped to 20, in 1937 made a new high of 160 and is currently around 73. Machinery stocks dropped about 7½% in the two weeks ended November 27th, while the Dow-Jones average dipped only about 1¼%. This reflects a recurrence of the "short war" psychology following the victories on the African and Russian fronts.

The accompanying table includes a representative group of machine tool stocks, many of which are selling close to their lowest levels for 1942. The 12 stocks included in our table show generous yield and are currently selling to average only about 3 times current earnings and 8 times pre-war (1937-9) earnings. Some of them are relatively small companies and are unknown to the average investor. Nevertheless at current levels they would seem to have discounted fairly well the transition to a peace economy. However, should the war news continue favorable, it is quite possible that these stocks might be obtainable at still lower levels, since they are "tagged" with the war label.

It is possible, however, that the transition from war to peace may furnish reasonable employment for tool companies' facilities. Almost our entire industrial mechanism must be re-tooled and re-geared for the production of peace-time products such as automobiles, washing machines and smaller household "gadgets." Moreover, some of the basic industries which are now suffering from a shortage of tools, such as oil drilling, will be in the market for tools after the war.

Rail and farm equipment will probably be in demand. Blast furnaces will need relining, etc. Moreover, war orders may not be completely cancelled since it has been hinted that a long armistice may follow the war and our military resources will doubtless be maintained at a substantial level during this period. The New Deal policy will be to prevent a serious depression by stimulating housing, exporting large amounts of machinery to allied and backward nations, etc. Hence while some decline will undoubtedy occur in the machine tool industry, it seems unlikely that a let-down such as occurred in 1932 will immediately occur. History has taught us that the major depression following a great war usually comes many years later, following a period of inflationary prosperity during which consumer demands are again satiated.

The heavy taxes now being paid by the machine tool companies will also form a buffer against low earnings, particularly as many of these companies are accumulating substantial tax credits for the post-war period.

While the stocks listed in our table are not among the best-known American corporations, some of them represent an aristocracy of early American mechanical genius which flowered in New England. Many of them combine sound management with a simple financial structure. While cash positions have suffered somewhat due to rapidly expanding operations and heavy taxes, most of them remain in comfortable position. Another year of heavy

operations would further bolster cash positions and provide additional tax credits as a buffer against later depression days. Following are some details on the twelve companies which we have tabulated:

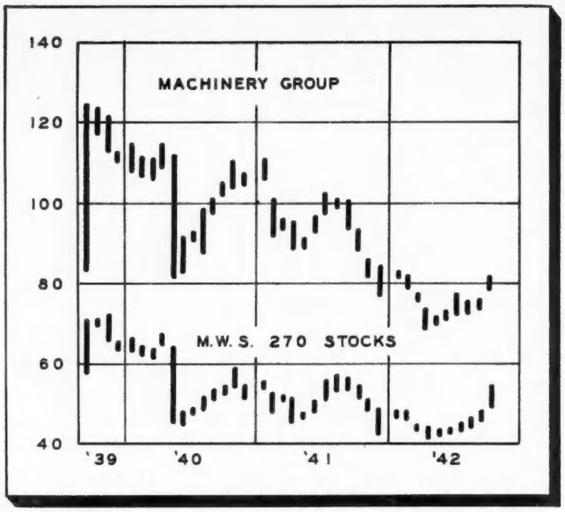
Blaw-Knox is not exclusively a machine tool company, but is included in the group because it produces power-driven metal-working machines. Other products include steel gratings, steam purifiers, process equipment, transmission and radio towers, dust collectors, gas cleaners, blowhouse equipment, steel and alloy castings, structural steel mill buildings, rolling mill machinery, etc.

Earnings have been irregular, but the cash position is good and the stock is one of the few low-priced issues in the machine group. Moreover, it is selling at almost the lowest level of the past nine years and thus would seem to have discounted pretty well the "short war" theory.

E. W. Bliss was a speculative favorite in World War I when the common stock (later split up) reached 750 in 1916 compared with the pre-war price around 40. At present the stock is barely holding its own with the average 1938-9 level, though earnings have, of course, increased sharply. In the other war, the company was a leading producer of torpedoes, shells, etc.; the character of the present war business has not been fully disclosed. Peace-time production includes mechanical and hydraulic presses, dies and machinery for fabrication of sheet metal goods, etc. Its products are used in a variety of industries—auto, farm machinery, electrical, steel, rail equipment, canning, cutlery, etc. The company's 1928 venture into the airplane engine field proved unsuccessful.

The 1941 financial position was fair, and the company is currently selling at only about twice current earnings and ten times those of 1937-9. Last year the company earned $7.09, and the estimate of $5 for the current year seems conservative despite the probable low excess profits tax exemption (no interim figures are available).

Bullard is a typical New England machine tool company, making automatic labor-saving machinery and specially designed tools such as "Mult-Au-Matics," "Contin-U-Matics," and "Vertical Turret Lathes." The stock is currently selling at slightly less than twice the estimated 1942 earnings of $8 and the 10% tax credit combined, but is fairly high in relation to average 1937-9 average earnings of $1.44. The financial position, as of



June 30, was only fair, with current assets slightly in excess of current liabilities (including tax accruals and advances received under pool orders). This doubtless accounts for the conservative dividend policy.

Ex-Cell-O makes precision boring machines, hydraulic power units, multiple drill heads, precision thread grinders, carbide tool grinders, center lapping machines and cylinder boring machines. In addition to these machine tool items it produces aeroplane engine parts, railroad pins and bushings, special dairy machinery, Diesel fuel injection systems, etc. The financial position a year ago was only fair, the current ratio being about 1.3 to 1. The stock is quite similar to Bullard, but earnings have shown less pre-war fluctuation and estimates for the current year are somewhat higher. The plant is located in Detroit.

Greenfield Tap and Die is an old New England tool company, the business dating back to 1871. The company makes taps, dies, gages, screw cutting tools, reamers, twist drills, pipe tools, and machine tools. It was very active during the other war and is again doing its share in the defense program, having expanded its facilities for the production of gages and taps with equipment leased from the Defense Plant Corporation. The stock is selling on the Curb around 7, which is only slightly above the 1940-41 lows and is below the highs for each year back to 1934. However, the stock seems relatively less attractive than some of the other stocks listed in our table, particularly as no dividend has yet been declared for 1942, and the cash position at the end of 1941 seemed low in relation to current liabilities.

National Acme is currently selling at only about twice estimated 1942 earnings (about 1½ times earnings if the 10% tax credit be included) and at less than ten times the pre-war earnings figures shown in our table. The company, which is located in Cleveland, makes automatic

Position of Selected Machine Tools

	Recent Price About	1942 Range About	*Div. Paid or Declared	Est. 1942 Earnings	10% Tax Credit	Price Earnings Ratio	Average Earnings 1937-9	Price Ratio to 1937-39 Aver. Earn.
Blaw-Knox	5¾	7½-5	$0.35	$1.50	.55	3.9	$0.88	6.5
E. W. Bliss	11	17 -10	2.00	5.00(a)	?	2.2	.35	10.4
Bullard	19	25 -16	2.50	8.00	3.00	2.6	1.44	14.6
Ex-Cell-O Corp.	24	28 -20	2.60	10.00	3.10	2.4	1.70	14.1
Greenfield Tap & Die	7	8 -5	....	2.50(b)	?	2.8	.58	12.1
National Acme	15	20 -14	2.00	7.00	2.75	2.1	1.58	9.5
Niles-Bement-Pond	9	14 - 8	1.25	4.25	1.65	2.1	1.64	5.5
Starrett, L. S.	24	35 -24	2.25	6.98**	?	3.4	3.44	7.0
United Engineering	26	35 -25	2.25	2.90	.70	9.0	3.70	7.0
Monarch Machine Tool	16	30 -15	3.00	9.00	3.35	1.8	2.05	7.8
Van Norman Machine Tool	10	12 - 7	1.30	2.65	?	3.8	3.39	3.0
Giddings & Lewis Mach. Tool	11	....	1.25	[3.32]	[i]?	3.3	3.41	3.2

*Paid or declared to about Nov. 24th. **Year ended June 30, 1942. (a) No interim figures available; last year the company earned $7.09. (b) In the first half the company earned $1.20 compared with $1.67 last year.

screw machines and chucking machines, brass and steel automatic screw machine products, automatic threading dies and taps, special machinery for the paint and varnish trades, and other products. The production gain in the past three years has been about 700% compared with 530% average for the machine tool industry, and is expected to increase another 60%; the company is booked solidly for next year. The current ratio at last year-end was 1.67 to 1, and there is no funded debt or preferred stock outstanding. Equity per share last year was $18.56 compared with the current price around 15. Dividends have been paid during the past 7 years, the present rate being $2.

Niles-Bement-Pond (which was split 4 for 1 in November, 1941) is notable in our table for the low price-earnings ratio in the pre-war period 1937-9. This is probably due to the fact that it reported fairly good earnings in 1938 (1.21). Moreover, it is selling at only 1½ times estimated current earnings plus the tax credit. With headquarters at Hartford, it is an important maker of metal-working machine tools, lathes, grinders, shapers, gauges, small tools, and die-sinking machinery. The company has important affiliations with the aviation industry and distributed 2⅛ shares of United Aircraft to each share of its own common stock in 1929. While the stock sold as low as $1 (after allowing for the split-up) in 1932-3, it sold up to 19 in 1939. The current position at last year-end was satisfactory, the current ratio being 1.57 to 1 and the equity per share (based on the balance sheet) $16.84.

L. S. Starrett is an old New England maker of fine precision instruments used in the metal-working, construction, engineering and automotive industries, including hacksaw blades, dial gauges, bevils, squares, etc. The stock is selling at about 3½ times the earnings for the year ended June 30, 1942, but of course those earnings did not full reflect present increased taxes. 1938 earnings were surprisingly good—$3.24 a share—and the stock is selling at about 7 times 1937-9 average share earnings. The company has a somewhat better cash position than most of the other companies in our list; cash assets of about $2,700,000 as of June 30 were about 37% of total assets and equal to about 68% of current liabilities (principally tax accruals). Capitalization consists merely of 146,699 shares of common stock.

United Engineering & Foundry designs and manufactures heavy steel mill machinery, rolling mill rolls and miscellaneous castings. A new plant is being constructed at New Castle, Penna. at government expense and will be operated under lease. 1941 sales volume set a new record for the company's history, but net earnings were somewhat disappointing, being lower than in 1940. Earnings this year will be still lower according to present estimates. The stock appears to be selling largely on the basis of pre-war earnings which averaged about the same as current earnings. (There was a moderate deficit in 1932). The current position is good, the current ratio last year being 1.65 to 1. The stock sells at nearly double its balance sheet equity per share, however ($14.36). The company is more closely affiliated to the steel industry, perhaps, than to the machine tool trade, although it has an overlapping position.

Monarch Machine Tool is one of the smaller companies (assets under $7 million) but it has had an interesting record. During the first World War huge dividends were paid. The stock was split 5-for-1 in 1916, yet in the following year cash dividends of $150 per share were paid. The stock was again split 3-for-1 in 1921 and generous dividends were paid up to 1929, when there was a 16-for-1 split. The company continued to pay dividends in each subsequent year though those in 1932-3 were only token payments of 10c. While the company was moderately in the red in 1931-3, earnings have gained consistently in later years, amounting to $7.14 last year.

For the current year it has been estimated that about $9 might be earned, plus a 10% tax credit of $3.35, making a total of $12.35 as compared with current market price of about 16 on the Curb. $3 in dividends have been paid or declared this year, compared with $4 last year. The current ratio at last year-end was about 1.6 to 1, and the equity per share about $17.44. The current price seems quite reasonable as compared with the price range since the stock was listed on the Curb in 1937. So far as conclusions can be drawn from the data in our table, the stock would appear to be relatively the most attractive in our list, but it has rather a poor market.

Van Norman is one of the old New England companies with an excellent record of stable earnings. It produces milling machines of various kinds, grinders for use in making roller bearing rings, etc., and machines and tools for the repair of automotive units and internal combustion engines. Principal customers are automobile, airplane, tank and machinery manufacturers. The company is now entirely in the war business, but as indicated in our table, the war has had comparatively little effect on earnings, which have averaged (*Please turn to page 253*)

Market Potentials in Auto Accessories

BY JOHN C. HARRINGTON

WITH conversion of manufacturing facilities virtually completed, processing of the tremendous volume of war orders is being materially accelerated by the automotive equipment organizations. In many sections of the country, but more particularly in the northeastern quadrant of the nation, factories of these companies are working around the clock in turning out the huge quantities of parts for guns, engines, tanks, planes, ammunition and other vital military equipment which is contributing mightily toward the eventual crushing of our Axis enemies.

The celerity with which this transition has been accomplished may be construed not only as a gratifying exemplification of the marvelous efficiency and adaptability of the great American industrial entities, but also as a supreme tribute to the resourcefulness and ingenuity of the men who guide their destinies. Suspension of the manufacture of original automotive equipment was essential to expedite the conversion to war production. Meanwhile, production of replacement parts is being restricted to equipment that is necessary to provide for motor vehicles now in use.

Limited Parts Replacement Permitted

In this connection, the W P B has established a quota that permits manufacturers of parts for passenger automobiles and light trucks to produce, during the final quarter of 1942, a quantity not in excess of 70% of sales registered in the fourth quarter of 1941—with the proviso that total inventories be not in excess of a four months' supply. In cases where inventories are in excess of the stipulated ratio, the equipment makers may produce replacement parts in an amount not to exceed 50% of total sales for the corresponding period of 1941, except that they must not expand inventories existing at the end of the quarter over those that prevailed at the beginning of this period. The corresponding quotas for the makers of parts for medium and heavy trucks, buses and for trailers, were set at 125% and 75%, respectively, of sales one year earlier. The W P B quota, however, makes no provision for manufacture of such items as fenders, hoods, bumpers and running-boards, and consumers are further required to return an old part before delivery of a replacement part can be made.

Availability of adequate supplies of raw materials will be the determining factor in the degree to which auto equipment companies, which have not succeeded in obtaining substantial war business, may profit by the W P B fiat, inasmuch as the manufacturers engaged wholly in production of essential and direct war equipment are being accorded prior consideration in the allocation of those raw materials.

War Orders Estimated at $15 Billions

Although official Governmental figures of war contract awards to the makers' of automotive accessories are no longer published, estimates have placed the aggregate, including those which have been negotiated with manufacturers of motor vehicles, at approximately $15 billion. The larger portion of the orders received by the auto equipment makers consists of sub-contracts for various parts, as well as sub-assemblies from other manufacturers which hold contracts for the completed equipment. The proportion of the aggregate volume of armament business received by the parts makers is not ascertainable, but manifestly it represents a substantial quantity that assures capacity operations for these concerns throughout the duration of the war.

The necessity of sufficient supplies of materials applies with equal force to these latter organizations, as it does in the case of the concerns engaged chiefly in replacement business, to which reference is made above. There have been occasional interruptions to the war production of these manufacturers, resulting rather from temporary dislocations in the procuring of materials, than

from a general shortage thereof. These obstacles are being progressively overcome through more effective allocation of supplies, in order that continuous and accelerating operations, in all of such plants concentrating upon armament production, be achieved.

Because of the nation-wide investment interest in the securities of leading corporations in the automotive accessory division of industry, particularly with relation to the war effort, the present time is opportune for a survey of their position and prospects. In numerous instances, of course, Federal censorship renders impracticable a detailed discussion of operations.

Bendix Aviation Corp., which normally derives the greater portion of revenues from the production of automotive parts and aircraft equipment, is devoting all but a minor part of operations to military aircraft and marine equipment, as well as to certain specialized armament lines. Plant facilities have been greatly enlarged at several locations, while aircraft equipment capacity is reported to have been quadrupled. In order to finance the large volume of war orders, the company has, it is stated, arranged for a credit of $200,000,000 through a large mid-western bank, of which $50,000,000 would be underwritten by a Government agency, at a reported interest rate of 2¾%. Profits of Bendix for the nine months ended with June 30, 1942, equalled $5.22 per share on the 2,113,353 shares of $5 par capital stock, compared with $4.52 per share in the preceding similar period. Dividends paid during 1942 totaled $3.75 per share compared with $4 paid in 1941. The shares possess speculative merit in view of the company's excellent earnings outlook and highly capable management.

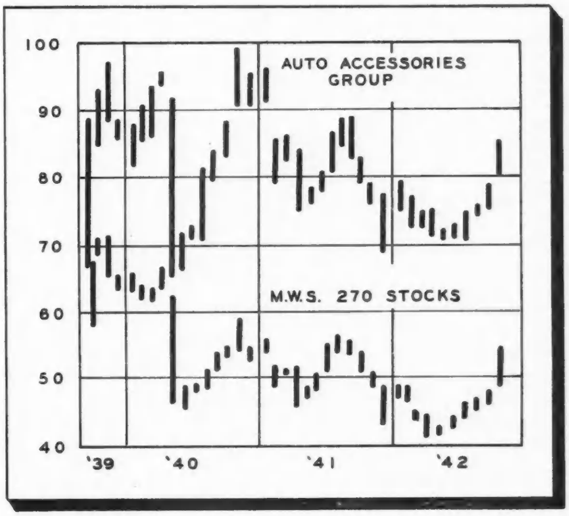
Prominent Maker of Aluminum Pistons

The war business of Bohn Aluminum & Brass Corp. is comprised mainly of large orders for fabricated aluminum parts for armament use. In peace time, this company markets about 40% of output to the automotive industry, products consisting of aluminum pistons, cylinder heads, bearings, bushings and connecting rods. Other important consumers of the company's production are manufacturers of vacuum cleaners, washing machines and refrigerators, with further diversification supplied by the aircraft trades. Profits for the nine months ended Sept. 30, 1942, continued the improving trend in evidence since 1939, amounting to $4.60 per share on the 352,418 shares of capital stock (the only capital obligation), compared with $3.26 per share in the first nine months of 1941. Bank loans of $1,200,000 were repaid early this year. Dividends this year, through Dec. 18, including $1 extra, amount to $3 per share, as against $2 for the full year 1941, and $1.50 paid in 1940. Development of magnesium alloys offers promising long-term potentialities. In view of the encouraging profit prospect of the company, the capital stock of this concern may be considered attractive.

Notwithstanding Federal tax allowances of $21,952,000 for the nine months ended Sept. 30, last, as against only $8,159,000 for the comparable 1941 interim, profits of Borg Warner Corp. receded but slightly to $2.59 per share from $2.72 in the similar nine months of 1941. The regular business of this company consists, to a large extent, of production of transmissions, overdrives, clutches, etc., although the Norge household appliance division accounts for more than 20% of total sales volume, the latter including refrigerators, washing machines, oil burners and air-conditioning equipment. Other revenues are ordinarily supplied by farm implements and specialty steel products. Conversion to war business has been practically completed, and total volume will continue high during the war. Finances as of June 30, 1942, were strong, with current assets of $57,190,000, including cash of $18,171,000, comparing with current liabilities of $26,819,000. Dividends through Dec. 10 total $1.60 for 1942, compared with $2 for the full year 1941. On the basis of 40 cents quarterly, a yield of over 6% is available.

Leading Auto Body Builder

Briggs Mfg. Co. is the largest independent automobile body manufacturer in the world, with a capacity of 1,200,000 bodies annually. Development, begun in 1940, of the aircraft parts department has enabled this concern to handle a large volume of orders for aircraft assemblies, which, with other armament output, assures an augmented level of operations throughout the war. Net income before taxes dropped sharply in the nine months ended Sept. 30, 1942, probably due to reduced operations during the conversion period. Net profits were equal to $1.56 per share, as against $2.44 in the same 1941 months, on the 1,947,700 shares of capital stock. However, net income for the third quarter of this year rose to 57 cents per share from 33 cents per share in the similar 1941 interim, suggesting that further recovery in profits will be witnessed in future months. Diversification of production will be continued in the post-war era, but the principal portion of revenues will doubtless be obtained from the manufacture of automobile bodies, as in the past. Distributions on the capital stock through Dec. 24, 1942, amount to $2.00, which compare with $2.25 per share each for the calendar years 1940 and 1941. Profits for 1942 may exceed $2 per share, and it is probable that the recent 50-cent dividend basis will be continued. The capital stock,



Leading Auto Accessory Stocks

Company	Approximate Market	Indicated Yield %	Post-War Outlook
Bendix Aviation	32	9.4	Strong trade position in auto parts and aircraft should be maintained.
Bohn Aluminum & Brass	36	5.6	Development of magnesium alloys seen as broadening market for products.
Borg-Warner	26	6.2	Non-automotive revenues will probably increase in importance.
Briggs Mfg. Co.	21	9.5	Automotive industry will continue to be chief source of income.
Budd Wheel Co.	6	(a)	Increasing railroad business should provide greater revenue diversification.
Electric Auto-Lite	29	6.9	Auto business will continue to furnish larger portion of income.
Houdaille-Hershey "B"	10	8.0	Output diversification will lessen dependence on automotive sources.
Raybestos-Manhattan	20	10.0	Widening outlets should strengthen post-war trade position.
Stewart-Warner Corp	8	6.3	Adding of new lines should help to provide greater revenue stability.
Timken-Detroit Axle	28	7.2	Oil burner and machinery equipment trade expected to increase.
Timken-Roller Bearing	37	8.1	Growing railroad business seen as aid to revenue diversification.

(a)—Unimpressive dividend record precludes estimate of yield.

therefore, may be regarded as a good speculation moderately under existing market levels.

Budd Wheel Co. is another accessory organization engaged in war work, which has succeeded in achieving commendable earnings gains this year, despite heavy increases in Federal taxes. Earnings for the nine months through Sept. 30, 1942, were equal to $1.54 per share, on the 965,258 shares of no-par common stock—the only capital issue—compared with $1.07 per share for the corresponding 1941 months. Military items being turned out by Budd include shells, as well as brakes and wheels for aircraft and military vehicles. Finances at the end of 1941 were in fair condition. Although production of wheels and brakes and brake-drums for automobiles will no doubt continue to provide the company with the major portion of revenues in the post-war years, the newly-developed railroad car brake is also expected to be an important income producer. Dividend payments have been irregular in recent years. The 1942 total is $1, including 50 cents paid Dec. 11, as against $1.05 paid last year, and 20 cents in 1940. As a price speculation, rather than for income, the stock has fair possibilities.

In order to help finance its war production program, Electric Auto-Lite Co., leading independent maker of automobile electrical equipment, recently completed arrangements for a $17 million bank credit. Volume of business is the largest in the company's history. Profits for the nine months ended Sept. 30, 1942, equalled $3.03 per share of common, compared with $3.97 in the similar period of 1941. At the end of 1941, capitalization included, in addition to 1,196,743 shares of $5 par value, $7,600,000 of 2¼% debentures, due 1950. War products embrace equipment for aircraft and marine engines, bomb fuses, shells, truck and tank batteries, among others. Dividends this year through Dec. 22, total $2.25 per share, compared with $3 each in 1939, 1940 and 1941. Strong trade position should assure full participation in post-war business. On basis of recent 50-cent quarterly payment, a yield of 6% is available on the common shares.

Production of armor plate at the plants of Houdaille-Hershey Corp. in recent weeks has been retarded by maladjustment of material supplies. Renegotiations of contract prices is also a factor occasioning uncertainty with respect to profit prospects for the immediate future. September, 1942, quarter earnings, however, were 42 cents per share of Class "B" stock, as against only 16 cents for the same 1941 months. For the first nine months of this year, profits totaled $1.19 per share of Class "B," compared with $1.82 in the corresponding period of last year. Finances at the end of 1941 were in satisfactory condition. Outstanding capitalization consists of 173,500 shares of $2.50 Class "A" and 785,000 shares of Class "B" stock, both of no-par value. Dividends paid this year through Dec. 21, amount to 80 cents per share of Class "B," compared with $1.50 each in the years 1940 and 1941. Although peace-time revenues are supplied largely by sales of shock absorbers, bumpers, and other auto equipment, diversification has been obtained through manufacture of refrigerator condensers, and, since our entry into the war, parts for marine and aircraft engines, as well as other armament items. While further dividend payments will be influenced by the outcome of contract renegotiations, the stock may be considered a fair speculation.

Plants Operating 168 Hours Weekly

Although Federal income and excess profits taxes were more than quadrupled, Kelsey-Hayes Wheel Company reported net income on Class "B" stock equal to $3.31 per share for the fiscal year ended August 31, 1942, compared with $3.04 per share in the previous fiscal year. There were outstanding on that date 290,285 shares of Class "A," (participating and entitled to $1.50 per share dividends annually), and 257,982 shares of Class "B" stock, both of $1 par value. Plants are operating 168 hours weekly, turning out machine guns, machine work, shell and ordnance items, as well as wheels and brakes for military vehicles. Official indications are that volume will further increase during the current fiscal year. Of the two outstanding capital issues, the Class "A," on which the regular $1.50 annual dividend is being maintained, appears the more attractive for income and appreciation.

War business of Raybestos-Manhattan, Inc., includes brake-lining, clutch-facings, etc., for tanks, airplanes and trucks. Normally, about 50% of output is absorbed by the automotive industry, the rest consisting of a line of rubber sundries, abrasive tools and asbestos textiles which have wide (*Please turn to page 252*)

Securities Disturbing Investors

BY J. S. WILLIAMS

Newport News Shipbuilding & Dry Dock Company Common

With the common stock of Newport News Shipbuilding & Dry Dock dropping down to a new low of 15⅞ as compared with a high of 25½ this year, shareholders have shown some concern. The fact that no interim earnings reports are issued worries some investors who feel in doubt as to the meaning of the market decline and want to know whether to sell or to hold for the longer term.

Newport News Shipbuilding & Dry Dock is one of the largest shipbuilding companies in the country with extensive shipways, piers, dry docks, slips and warehouses—equipped for the largest naval and merchant vessels. The company also rebuilds, repairs and reconditions ships; while a part of income comes from manufacture of hydraulic turbines and equipment for electric power installations and marine and industrial paints.

Doing work for both the Maritime Commission and the Navy, the company is likely to have capacity operations for the duration. Growing production has resulted from expansion of shipyards and this is not likely to be halted by shortages of raw materials. In 1941 Newport News Shipbuilding earned $6.11 a share, compared with $4.98 in 1940 and $2.69 in 1939. Neither interim earnings reports nor estimates have been made this year—however, at the end of June nearly one-half billion in unfilled contracts were on hand. Nineteen forty-two earnings are being hit by taxes and will be below those of last year—nevertheless the $2 dividend will be earned by a good margin and seems entirely secure.

In addition to taxes, profits will be limited by the 10% profit limitation on work done for the Maritime Commission.

Financial position is reasonably satisfactory. In 1940 sale of 15,000 shares of preferred financed the retirement of funded debt. However, current assets are only 1.1 times current liabilities. Working capital of $4.7 millions is rather small, having been reduced in 1941 by capital outlays and investment in a subsidiary, North Carolina Shipbuilding Co., which builds cargo ships.

Conclusion: The trend in the market price is downward due to pressure against war stocks. Good news from the African and Pacific arenas suggests a shorter war than many had anticipated. Certainly the outlook for Newport News Shipbuilding & Dry Dock after the war is clouded. Probably the stock is undervalued at today's quotation and with a $2 dividend being paid we believe that those who retain it temporarily will be able to sell several points higher. Do not hold for the longer term.

United Gas Improvement Company

Holders of the common shares of United Gas Improvement noted the drop of nearly 25% in the company's net income for the 12 months ended September 30, 1942. Already disturbed by the fight the S E C is having with this company—they have not been reassured by market action which finds the stock halfway between the high of 5½ and the low of 3½ for 1942. Several stockholders have inquired whether to sell now or to hold. A Philadelphia investor wonders whether to sell now for the purpose of establishing a long-term tax loss, part of which can be used this year—the balance to be utilized as a carry-over loss credit in the next five years.

United Gas Improvement Company is one of the oldest holding companies and as such is registered with the S E C and is subject to its decisions. The tentative integration plan of the S E C would limit the company's utility investments largely to the electric properties of Philadelphia Electric and subsidiaries and to Delaware Power & Light. Already UGI has divested itself of various properties, most important of which is Connecticut Light & Power Company. Now there is a battle on in the U. S. Circuit Court of Appeals concerning other properties. Hearings by the S E C have been considering the question of whether the company should be made to dispose of its holdings in Public Service of New Jersey. This uncertainty has depressed the price of the shares.

Gross earnings from all departments have been favorable, especially from electricity supplied largely to industry. Income from transportation showed a healthy growth. However, net was reduced this year by rate reductions, increased federal taxes, cuts in dividends by non-subsidiary holdings, plus loss of income from sale of investments. Reduced dividends from both Philadelphia Electric Company and Public Service of New Jersey contributed to lower earnings. For the 12 months ended September 30, 1942, income was only 42c per share as compared with 59c in the previous 12 months.

Dividends have been reduced to a 10c quarterly basis, but this looks reasonably secure for the time being, representing about a 9½% return at present levels. The company's financial position is sound with no debt and but a small amount of current *(Please turn to page 254)*

Investment Audit of PULLMAN, INC.

BY STANLEY DEVLIN

THOUSANDS of American corporations have converted their operating facilities, in whole or in part, to the production of military equipment for our own armed forces and for the fighting men of the United Nations associated with us in this crusade to rid the world of the Axis menace. But when the finished materials leave their factories, this terminates, in the great majority of instances, the physical functioning of those manufacturers, so far as war production is concerned.

Pullman, Inc., is carrying its war-time operations a step further. Not only are the facilities of the corporation's manufacturing subsidiary engaged largely upon the processing of armament orders, but its transportation division is conveying thousands upon thousands of troops to camps and to points of embarkation in various sections of the country.

Sleeping car traffic and the carrier subsidiary's revenues therefrom are surpassing all previous records, according to a recent company statement, which adds that "troop movements and other Government travel account for nearly half of the total business handled this year. Earnings of this subsidiary show improvement over the level of recent years, but are lower than those of pre-depression period of the 1920's, because of the substantially heavier operating costs and taxes now incurred."

The company's program for the maximum utilization of all Pullman cars is now virtually completed, with all serviceable cars in active operation or in the shops for conversion into special-type troop cars, and with all unserviceable equipment being converted as rapidly as possible into scrap metal for use in the war effort. The company expresses the view that probably all of these special-type cars and many of the sleeping cars of regular type now being used in troop transportation will not be usable in Pullman service after the war. "So far as permissible under Government regulation," says the company, "the new investment required in adapting Pullman cars for war use is being amortized on the prescribed five-year basis, but much rehabilitation expenditure is in prospect after the war on cars returned from the troop transport service."

Meanwhile, at the plants of Pullman-Standard Car Mfg. Co. (the wholly-owned manufacturing subsidiary), operations are proceeding at an accelerated pace. The total output of this division during the first nine months of 1942 was about 31% greater than for the entire year 1941. The larger portion of this production has been diverted to armament output. Notwithstanding the increased flow of completed products, the backlog of orders has attained new peaks, currently accounting for 95% of all orders on the books of this subsidiary.

In connection with normal manufacturing operations, it may be mentioned that the American railroads have submitted to the War Production Board a suggested program for building new and greatly needed equipment, including 80,000 freight cars, to meet anticipated traffic requirements during 1943. The roads will be permitted to purchase 20,000 freight cars in first half of 1943; otherwise, the outlook for new passenger and freight rolling stock, on an extensive scale, except for cars for direct military purposes, does not now appear encouraging.

Production facilities in the Chicago area have been adapted to the construction of vessels for the Navy, and it is expected that the first submarine patrol boat built in that region will be launched shorly after the beginning of the new year. It is estimated that approximately 6,000 workers will be employed in shipbuilding operations when maximum production is attained.

The manufacturing organization is turning out 12 times as many airplane parts as it did before our entry into the World War. Moreover, tank orders are eight times greater; gun carriages and mortars, six times greater; anti-aircraft welds, four times greater, while shell and bomb orders have increased 2½ times.

In the two years which have elapsed since the receipt of the company's first war contract, approximately 5,500 Pullman-Standard contracts have been awarded in 170 cities and 20 states to 960 sub-contractors, the latter ranging in size from one-man shops to a plant employing 150,000 workers. Of the firms receiving sub-contracts, 795 are classified in the "small business' group, and these hold nearly 4,800 contracts. Manifestly, Pullman is contributing in significant measure to the success of the "spread the work" movement throughout the country, with resultant economic benefit to the numerous communities where the sub-contracts are being processed.

Pullman, Inc., is a lineal descendant of a business established by George Pullman in 1867. The present parent organization, which functions as a holding company, was incorporated in 1927, to acquire control of The Pullman Co. (the original transportation unit), and of Pullman Car & Mfg. Corp. Among subsidiaries, in addition to those engaged chiefly in transportation and in manufacturing operations, are others whose activities embrace promotion of home building for employees in Michigan City, Ind.; export business; and foreign manufacturing and sales operations. Manufacturing and repair shops of Pullman, Inc., are owned and operated in various sections of the United States.

Capital structure of the parent organization is simple, consisting of 3,302,897 shares of capital stock of no-par value. The balance sheet as of Sept. 30, 1942, disclosed a strong financial status. Current assets totaled $128,-561,000, including cash and United States Government securities (latter carried at cost which, in the aggregate, was under market value) of $51,216,-000, receivables of $28,129,000 and inventories (at cost) $28,354,000. There were also U. S. Treasury tax savings notes (earmarked for accrued Federal taxes on income) in the amount of $13,058,000. Current liabilities aggregating $36,750,000, consisted of accounts payable and payrolls, $16,823,000, and accrued taxes in the total of $19,727,000.

The balance sheet shows a special reserve of $7,500,000 for contingencies. In this connection, the report states that, in recognition of the contingencies connected with such situations as the renegotiation of prices under armament contracts, as well as other factors involving reserves, an additional sum of $2,500,000 had been set aside out of earnings for the third quarter.

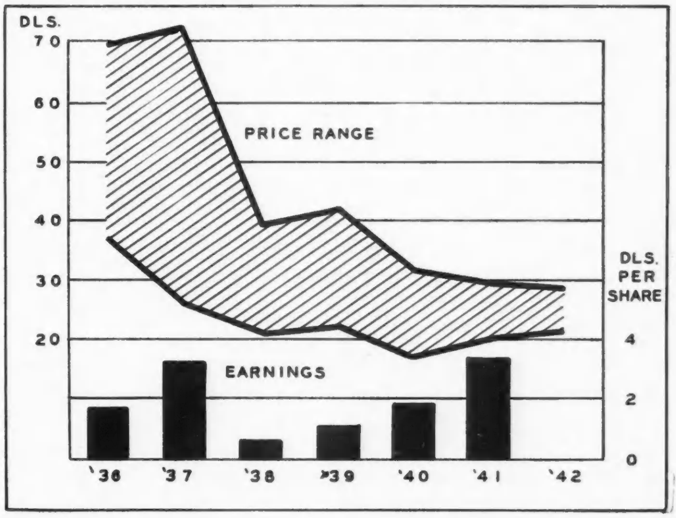
Earnings recovery which developed in 1939 was extended through the first nine months of 1942. Profits for the interim were equal to $3.74 per share of capital stock, compared with $2.38 in the corresponding months of 1941. However, net income of 90 cents per share for the three months ended Sept. 30, was considerably under the $1.64 per share reported for the preceding quarter. Provision for all Federal taxes accrued to Sept. 30, last, was made in accordance with the Revenue Act of 1942. In making the provision under the new Act, the entire excess profits tax exemption for the year 1942, with the carry-over from previous years, has been applied, without proration on a quarterly basis. The exemption, therefore, is exhausted, and earnings realized during the fourth quarter of this year will be subject in their entirety to excess profits tax at the rate of 90%.

No credit was taken in the income account for the statutory post-war refund of 10% of excess profits tax to be paid on 1942 earnings. An estimate of the claim on account of such refund on the excess profits tax accrued for the first nine months of the year is carreid in the balance sheet, as a deferred item, in the amount of $579,500.

The decline in third quarter income was attributed principally to the virtual suspension of railway car production. Inasmuch as income is now increasingly vulnerable to taxes, it is probable that net income for the year will not exceed $4.50 per share, and, in fact, may actually be somewhat under this figure, notwithstanding the heavy Government business on the company's books.

The strong financial position of the company is demonstrated by the fact that net quick assets as of Sept. 30, 1942, were equal to $27.80 per share, this sum being actually in excess of prevailing market prices for the capital stock.

Pullman, Inc., possesses a long and honorable dividend record, with uninterrupted annual payments, in varying amounts, by the present and predecessor corporations, dating back to 1867, the year in which the business was founded. Even during the early 1930s, when deficits rather than profits featured operations, liberal distributions were maintained, preservation of the long-time record being rendered possible by the company's traditionally strong financial (*Please turn to page 256*)



FOR PROFIT AND INCOME

Assets Versus Prospective Earnings

Behind Mack Truck there are net quick assets of about $46 per share and book value is in excess of $64 per share. However, this is one of the minority of stocks which recently have been making persistent new lows for the year. Earnings for nine month ended Sept. 30 were $3.03 per share, but in the third quarter alone were only 90 cents. If one classes Mack as a war stock, at recent price around 27 it is not nearly as deflated as many others. In the years 1937-1940 its bottom levels were around 16 to 18. Though Mack has other war production, truck production has been drastically cut. Military trucks apparently have been over-produced. It is conceivable that many of these vehicles may be disposed of in civilian markets after the war. In an inflationary period, high assets are a desirable factor in any stock, but in this case lack of confidence in the earnings prospect has the greater weight.

Inland Steel

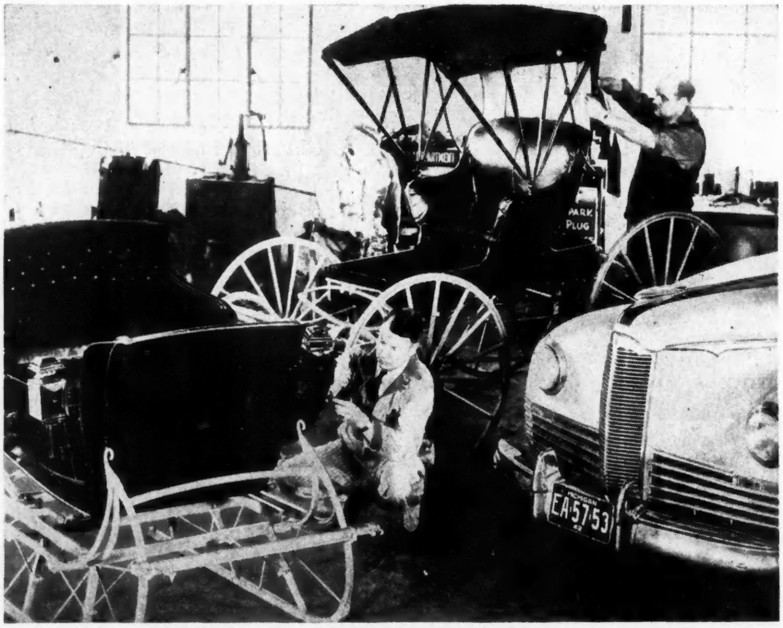
Pessimism on the post-war outlook for steels may be over-done. This industry is not going to be liquidated. Inland Steel especially invites attention by speculative-investors. Its peace-time money-making ability has long been among the highest in the industry. It has excellent management and modern, strategically-located plants. Current dividend yield is attractive and appears relatively secure. Recent low of 57 was only 3 points above 1942 low and 3/4 of a point above lowest level of the depression year 1938. Its highs of the past eight years back to and including 1935 and beginning with that year in consecutive order were: 108; 122; 131 1/4; 95; 98 3/4; 94; 90 1/2; 74 1/2, the last figure being 1942 top.

Aircrafts Over-Sold?

For the past six weeks the aircraft shares have acted "worse than the market." That is because the public is thinking of them as war stocks, and is worried about what will happen in the inevitable post-war adjustment. Some companies probably will have to reduce output to as little as 5% or 10% of the present inflated level; and there may be financial problems in a few cases. The aircraft industry, however, will experience an accelerated growth because of the war; and a few years ago the chief virtue of an investment in this industry was the "growth" factor. Representative aircraft shares are selling much lower than before the war in spite of the assured growth the war has given the business. They may pay some nice "war-end" dividends, incidentally, which would make their "ex-war" price even lower than it now seems. Furthermore, each company represents more assets, more experience and better management. The facts presented in the accompanying box are challenging. Probably the aircrafts, from a long-range standpoint, are in a buying area. It is most important, however, to select good management. On that score United Aircraft, Douglas and Consolidated are among the best.

War Stocks Can Sell Higher After the War

If your memory goes back over a quarter of a century, you will recall that many of the "war babies" of 1915-1918 sold higher in the stock



Here you see an old-time sleigh and buggy being repaired in a Packard dealer's service station in Birmingham, Mich. Unfortunately for war-blitzed service stations and ration-bound motorists, it is not typical. There aren't nearly enough such vehicles—or horses—to ease the transport problem more than minutely.

market the first year after the Armistice than at any time in 1918, the last year of the war. The 1919 range of American Woolen common, for instance, was 169½ to 45¼ against 60⅞ to 44⅝ in 1918. The 1919 high of Baldwin Locomotive was 156¼ against 101¾ in 1918; Central Leather's 1919 high was 116½ against 73⅝ as the best price of 1918; Crucible Steel, 261 against 74⅞; National Acme, 43½ against 33; New York Shipbuilding, 78 against 47½; and Republic Steel, 145 against 96. The same thing does not have to happen again after World War II, but it could.

The Aircrafts May Still Be "Growth Industry" Shares

	1939		1938		1937		1936		
	Earned Per Share	Highest Price	Earned Per Share	Highest Price	Earned Per Share	Highest Price	Earned Per Share	Highest Price	Recent Price
Curtiss-Wright	$0.39	13¼	$0.17	7⅜	Nil	8⅜	Nil	9¼	6¾
Douglas Aircraft	4.81	87¾	3.76	80¾	$1.90	77¼	$1.74	82¼	55
Lockheed Aircraft	4.04	36⅜	0.67	37⅞	0.21	16¼	0.15	14⅞	16
Martin, Glenn L.	3.75	45⅜	2.15	37⅜	1.29	31½	0.89	20¼	19
North Amer. Aviation	2.06	29¼	0.55	20	0.14	17⅜	0.01	14¼	10
Sperry Corp.	2.71	51⅞	2.46	49⅜	1.46	23¾	1.32	24⅛	24
United Aircraft	3.53	51	2.05	43¾	1.52	35⅛	0.76	32⅜	26

Present very low price-earnings ratios in the aircraft shares are in sharp contrast with the high price-earnings ratios prevailing in 1936, 1937 and 1938. Like the chemicals, the aircraft shares represent ownership in a dynamic "growth" industry, and normally sell at a large number of times per share earnings. There is no logical reason why aircraft shares should not be worth more now than in the pre-war years and the market may be guilty of excesses in its present pessimism regarding them. Current earnings, of course, admittedly are abnormal.

General Telephone Offers High Yield

Regardless of whether you consider it a $1.60 dividend stock, or think that the directors ought to cut the rate of payment to $1.40, General Telephone at around 16 looks like a good high-yielding investment. Net for the first nine months, on a consolidated basis, was $2.12 a share against $2.18 in the same period a year ago. The company reported $2.86 a share for 1941 and $2.65 a share for 1940 and $2.12 a share for 1939. The stock sold as high as 23¾ in 1940 when paying dividends at the rate of only $1.40. This stock is not entitled to the same investment rating as American Telephone because it represents a much smaller company operating in a limited territory; but the system has made most encouraging progress in recent years and the current high yield would appear to be out of proportion to the risk involved in buying the stock.

Possible Developments in Warner Brothers Pictures

The Warner Brothers Pictures report for the fiscal year ended August 31 probably will be published before this issue reaches the reader. A good showing is expected with estimates running between $1.75 and $2.50 a share on the common against $1.36 a share in the previous period. Warner Brothers has a back dividend accumulation of $33.68¾ a share on the 99,617 shares of preferred stock outstanding. It is unlikely that this dividend will be paid off in cash, since the Warner family is supposed to own all but less than 10,000 shares of preferred and probably would prefer some new security to a money payment. In view of the improved financial position of the company and the remarkable manner in which funded debt has been reduced, some action to eliminate this preferred dividend accumulation obstacle to common dividend resumption is expected before long. Many of those who have been buying the common stock between 6 and 6½ are saying most complimentary things about the Warner family. Because of the loyal manner in which the family stood behind the credit of the company with private money during darker days, the Warners have earned a splendid reputation for financial probity.

So We Hear—

Roan Antelope has been going up on the better military situation in Africa; this company probably owns the best copper mine in the world in Northern Rhodesia. Before the war it could lay down copper in London at a cost of less than 5 cents a pound, and its rich open-pit ore reserves are thought to assure a life of at least a century. . . . Ohio Oil has been doing better than some of the other oil companies because of its huge pipe line interests; the shortage of tankers means big business for the pipe lines. . . . Mid-Continent Petroleum is another oil company which has been making a better-than-average showing; this is because of the company's concentration in lubricants, which are not rationed, and ownership of a large fleet of tank cars. . . . Students of public utility holding company share values think that Commonwealth & Southern Pfd. represents exceptionally sound value, whether the company is liquidated or not; there is a good possibility that dividends may be resumed, perhaps at the old $3 annual rate. . . . Pullman, Incorporated's year-end dividend brings payments for the year to $3 against $2.50 last year; net for the first nine months was $3.74 a share which suggests better than $4 for the year; with the stock selling at around 27 physical assets are given a very low market appraisal, since the company's net working capital is about $25 a share. Book value at the end of June was $60.52 a share, and probably is conservatively stated. . . . Some of the railroads which are expected to exhaust, or nearly exhaust, their EPT credits this year are Southern Pacific, Southern Railway, Union Pacific, Erie Railroad, Atchison and Atlantic Coast Line, all of which will earn substantially less after taxes in 1943 than in 1942, even if pre-tax net does not decline; roads like Chesapeake & Ohio, Norfolk & Western, Virginian and Louisville & Nashville already are subject to EPT. . . . There has been some year-end loss registration in Northern Pacific on the theory that the stock is adequately valued in view of the company's low earning power under more normal conditions. . . . Decca Records is being bought by people who think the company should be a spending beneficiary; the problem of raw materials for records appears to have been solved by resourceful chemists.

INVESTMENT AUDIT OF F. W. WOOLWORTH

Cushing Photo

Lower 1942 Net Probable; No Early Dividend Change Seen

BY GEORGE L. MERTON

IN a commemorative booklet issued by the F. W. Woolworth Co. in 1939, the writer of that booklet describes the remarkable growth of this merchandising organization during the preceding 60 years as the "Triumph of Small Change." It would be equally veracious to describe such monumental expansion over three score and more of years as the "triumph of an idea"—an idea that merchandise could be produced and sold at a comparatively low price, and yet yield a profit to the manufacturer and to the merchant.

Mass production and rapid and tremendous turnover of such merchandise were essential to the success of this idea, which presupposed the existence of a consumer market sufficiently large, and with ample buying power in good times and bad, to assure maintenance of profitable operations for such an enterprise.

From a modest number of 631 stores operating in 1912, the first full year of the present corporate organization, with sales of only $60,558,000, expansion has been constant over the ensuing years, until at the end of 1940, the company had 2,027 stores in operation in the United States, Canada and Cuba, or four more than at the close of 1941. Contemporaneously, sales expanded in even greater proportion, rising from an average of about $96,000 per store in 1912 to an all-time record average of over $186,000 per store (in the western hemisphere) last year.

Meanwhile, Woolworth had extended its ramifications across the Atlantic Ocean. More than three decades ago, F. W. Woolworth & Co., Ltd., was incorporated in England, as a private company. Recapitalization was effected in 1931, and shares were sold to the public. At the end of 1940, this corporation operated some 750 stores in Great Britain and Ireland, these corresponding to the "five and ten stores" in the western hemisphere. About 53% of the voting "ordinary" shares is owned by the American organization.

Through a controlled German corporation, stores were also opened throughout the Reich, and in 1939, latest year for which figures are available, these numbered 82. Inasmuch as their status under enemy domination has not been clarified, the parent organization, in the interest of conservative accounting, had written the value of the German investment down to only $1 as of Dec. 31, 1941.

For many decades after the establishment of the Woolworth company, the original policy of retailing merchandise at five to ten cents was closely followed. Realizing the limitations upon sales possibilities thus arbitrarily set, alteration in merchandising policy was adopted in 1936, in order to permit sale of higher priced goods also and thus to strengthen the company's competitive position. This policy has been attended with great success, as may be perceived from the fact that average sales per store have advanced from $136,000 in 1935, to over $186,000 in 1941, or an increase of more than 36% in six years.

Although the size of the stores and the types of merchandise sold are determined in some degree by the character of the locality served, operations are generally standardized. All merchandise is purchased—in some instances the entire output of a certain manufacturer may be acquired if a favorable opportunity is presented. A considerable portion of goods is bought on a competitive basis. Not only are costs closely controlled, but a

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By A. T. Miller, Investment Authority

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careful check is kept upon items that may be in great popular demand during a given period, in order to assure frequent turnover of such goods.

Unsold merchandise carried over to a second annual accounting is automatically written off, thus avoiding accumulation of unsalable items. Moreover, the management observes trade trends and store results in various localities, and unprofitable units are eventually closed, as a general policy. Contrariwise, new stores are opened when local economic conditions justify such a move. For example, in 1941, the company reports the opening of twelve new stores and the closing of sixteen units. The reason for discontinuing of operations in the sixteen stores was not specified in the annual statement, but the inference may be drawn that such operations were not sufficiently profitable to warrant their continued existence.

At the end of 1941, there were in operation (on this side of the Atlantic) 1,870 stores in the United States, 145 in Canada, and 8 in Cuba. The largest number of stores was in New York State—226; with Illinois having 180; Pennsylvania, 142; California, 120; Massachusetts, 118; and Ohio, 115. Of Canadian stores, Ontario led with 62, followed by Quebec with 34.

Woolworth does not report earnings on an interim basis. Operations in 1941 resulted in earnings equal to $2.69 per share, on the outstanding 9,703,608 shares of $10 par value capital stock, this comparing with $2.48 per share in the preceding year. Other capital obligations outstanding on Dec. 31, 1941, included $22,000,000 of 2½% S. F. debentures, due in 1955 (which were sold in June, 1940, to the Prudential Insurance Co.) and $2,039,525 in purchase money mortgages. Proceeds of the debenture sale were used for retirement of $10,000,000 in 3% debentures, which had also been held by Prudential, for payment of a $4,500,000 note held by Irving Trust Co. of New York, while the balance of the funds was utilized for financing the program of enlargement and improvement of stores.

The working capital position of Woolworth at the close of last year's business was strong. Current assets of $90,419,000 consisted of cash in the amount of $19,-591,000; and receivables, $1,263,000, with inventories making up the balance. Current liabilities of $29,756,-000, included tax reserves of $16,103,000.

Among the company's investments are nearly 53% of the "ordinary" shares of F. W. Woolworth & Co., Ltd. (total amount outstanding, 30,000,000 shares), which were carried in the Dec. 31, 1941, balance sheet at $40,-587,000. At current market quotations, the American Depositary Receipts representing the English "ordinary" shares, have an equivalent market value—based on the parent company holdings—of approximately $102,000,-000. In other words, the prevailing market value of these shares is about $61,500,000 in excess of stated book value, this sum being equal to about $6.35 per share on each of the outstanding 9,703,468 shares of capital stock of the parent organization. It will thus be seen that the actual book value of the shares of the American corporation was considerably in excess of the $21.38 per share reported at the end of last year. Dividends on the company's British investment have been paid annually for the past dozen years. Distributions in 1941 and 1942 totaled $1.20 per share, on the ordinary shares, computing the pound sterling at an equivalent of $4.

The F. W. Woolworth Company itself has made some distribution to stockholders in every year since establishment of the present corporation. With a payment of $0.40 on Dec. 1, these total $1.60 for 1942, compared with $2.00 in 1941, and $2.40 per share annually from 1932 to 1940, inclusive.

Operations during 1942 have been characterized by sales gains. For the ten months ended with October, sales aggregated $322,600,000, or 14.8% more than during the comparable 1941 period. Sales for the month of October, in the amount of $38,475,000, were 17.9% above those for the similar month of last year. The large variety of merchandise which the company handles has been of particular advantage (with inventories comprising over 35,000 items), during a time when numerous mercantile organizations are encountering difficulty in securing inventories of generally profitable lines. In this connection, it is stated that Woolworth has been rather successful in obtaining satisfactory substitutes for many types of merchandise.

Significant Woolworth Statistics

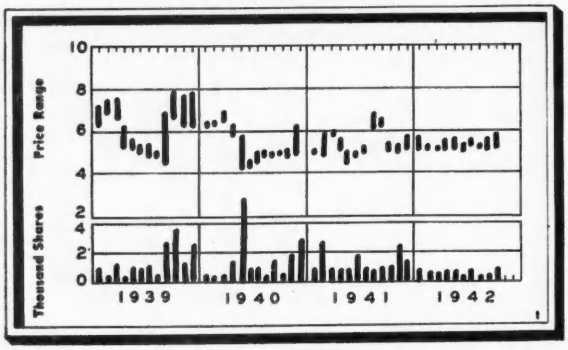
Year	Earn. Per Sh.	Avg. Net Inc. Per Store	Mdse. Turnover (Times)	Profit Margin %
1935	$3.22	$9,620	6.82	8.4
1936	3.36	9,580	6.46	8.1
1937	3.42	9,725	6.56	7.8
1938	2.95	7,945	7.01	6.8
1939	3.02	9,047	6.74	7.0
1940	2.48	8,048	6.48	6.9
1941	2.69	9,537	5.42	8.8

Sales volume for the full year 1942 will, in all likelihood, range well in excess of 1941 turnover. It is questionable, however, whether earnings results will be as favorable as those of 1941. Merchandise costs and wages are generally higher, while tax increases have been severe.

Despite the resourcefulness of the management in replacing numerous items during 1942, it appears extremely doubtful that they can overcome, in 1943, the growing handicaps imposed by increasing shortages of merchandise. A constantly enlarging proportion of goods ordinarily handled by Woolworth and the other variety chains is being affected by the diversion of operations of manufacturers of such goods to direct and indirect war production. This applies with especial force to merchandise which has been fabricated from metal. Metals of every description are vital to the manufacture of armament, ships, tanks, planes, and countless other military equipment; consequently, the chain stores will be unable to procure their accustomed quantities of such goods, and it is conceivable that they may find their shelves entirely depleted of hundreds of metallic items, whose production for retail trade has been discontinued for the duration. *(Please turn to page 257)*

6 Low-Priced Stocks For Capital Building

ART METAL WORKS, INC.



BUSINESS: Normal production of this company includes a wide variety of items such as ecclesiastical metal statuary, metal ornaments, toys, and novelties, many of which are patented and sold under the trade name "Ronson." Complete lines comprise more than 12,000 items, among these being cigar lighters, lamps, chandeliers, toilet articles, desk sets, smokers sets, and special advertising novelties. Company's domestic plant is located at Newark, N. J. Wholly owned subsidiaries include Dominion Art Metal Works, Ltd., of Toronto, Ont., and the Ronson Products, Ltd., of London, England. Although few details are available, it is understood that war business in both Canada and the United States is increasing in volume. During the first world war, the company produced shell containers, cartridge cases, fuse plugs, and collar ornaments and insignia, among other war items. Sales offices are maintained in New York, Chicago and Los Angeles, and in Toronto, Ont., and London, England.

FINANCIAL POSITION: Consolidated balance sheet as of Dec. 31, 1941, (excluding the English subsidiary) showed current assets of $2,042,000, including cash of $246,000 and marketable securities of $187,000, while current liabilities were $858,000, including tax reserve of $677,000. There was no funded or floating debt, and the only capital liability was 218,891 shares of $5 capital stock. Net working capital at the end of 1941 was equal to about $5.40 per share of capital stock. Following suspensions in 1932 and 1933, dividends were resumed in 1934, and have since been paid, in varying amount, in every succeeding year. Payments this year through Dec. 24, amount to $0.60 per share.

OUTLOOK: With adequate supplies of substitutes available to replace materials which have been restricted to war use, normal business is expected to be fairly well maintained, while the volume originating from the war should keep over-all production at high levels. Post-war trade will be governed by fluctuations in consumer spending power. Products of the company enjoy an excellent reputation throughout the novelties trades, and the long-term outlook may therefore be regarded as generally encouraging.

MARKET ACTION:	Art Metal Works	Market Average	Art Metal's moves in relation to average
'40 high to '41 low.......	5% advance	23% decline	....
'41 low to '41 high.......	23% advance	23% advance	....
'41 high to '42 low.......	22% decline	27% decline	19% narrower
'42 low to '42 high.......	14% advance	33% advance	58% narrower

Average volatility: 29% narrower on advance. Proportionate advance over past four months has slightly exceeded that of the industrial averages.

COMMENT: Recent price—6. Although no interim reports have been made public, indications are that profit margins will be well maintained.

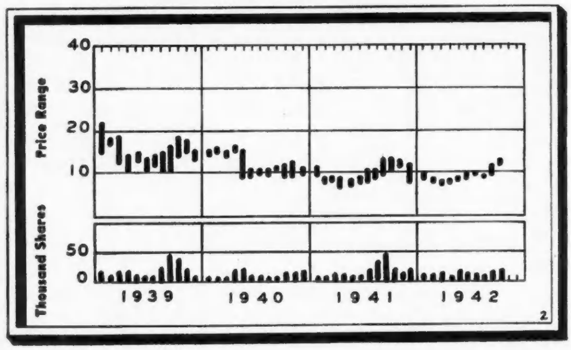
Long-Term Record

	Gross Profit (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934..........	$ .667	$.201	$0.90	$0.25	4¾-1½
1935..........	.959	.309	1.38	0.65	12⅜-3¼
1936..........	1.089	.346	1.55	1.20	17¾-9⅝
1937..........	1.152	.315	1.41	1.05	15¾-4½
1938..........	.692	.021	0.09	0.80	9 -5
1939..........	.845	.103	0.46	0.60	8 -4⅛
1940..........	1.298	.335	1.52	0.80	6¾-4
1941..........	1.779	.409	1.87	1.00	6⅞-5
1942..........	(a)	(a)	(a)	*0.60	*6 -4⅞

(a)—No interim report available. *—To date.

Thumbnail Stock Appraisal

BARBER ASPHALT CORP.



BUSINESS: Primary business of this company is production of asphalt and manufacture of roofings, floors and related materials. In recent years, company has expanded its petroleum refining activities. Approximately one-third of crude is obtained under royalty from a Venezuelan concession operated by Royal-Dutch Shell. In 1941, petroleum and its products accounted for 57.4% of dollar volume of sales. Late in October, 1942, authority was given company to engage in shipbuilding operations, and also for purchase of a tanker from the U. S. Maritime Commission. The New Jersey Shipbuilding Corp., a wholly owned subsidiary, has been formed to build special types of vessels for the U. S. Navy, at the company's Perth Amboy, N. J., property.

FINANCIAL POSITION: An unusually strong financial condition was exhibited by this company's balance sheet as of Dec. 31, 1941, (latest available) with current assets of $6,447,000, including cash of $3,607,000, comparing with current liabilities of only $983,000, the latter including $408,000 tax provision. Outstanding capital stock consisted of 390,223 shares of $10 par, and there was no fixed or floating debt. Net working capital was equal to $14 per share at the close of 1941, or somewhat above prevailing market quotations for the capital stock. Dividend payments over the past decade have been irregular. No distributions were made since 1940, when $0.50 per share was paid.

OUTLOOK: Naval warfare has resulted in virtual cessation of asphalt and oil shipments from Caribbean Sea areas, resulting in closing of company's New Jersey oil refinery and two roofing plants. Revenues for the duration will come principally from shipbuilding operations. Narrow profit margins on such business may continue to restrict net income for near future. Following the end of the war, petroleum operations should again be the largest source of income. Long term prospects can be considered satisfactory, although it is unlikely that revenues originating from the construction industry will be as important as they were in the years which preceded our entry into the second World War.

MARKET ACTION:	Barber Asphalt	Market Average	Barber's moves in relation to average
'40 high to '41 low.......	35% decline	23% decline	52% wider
'41 low to '41 high.......	18% advance	23% advance	22% narrower
'41 high to '42 low.......	24% decline	27% decline	11% narrower
'42 low to '42 high.......	77% advance	33% advance	133% wider

Average volatility on four moves: 21% wider on declines; 55% wider on advances than M. W. S. index. Percentage of market gain in past few months moderately surpasse the rise in the industrial stock averages.

COMMENT: Recent price—11½. Finances appear adequate to provide for all current purposes.

Long-Term Record

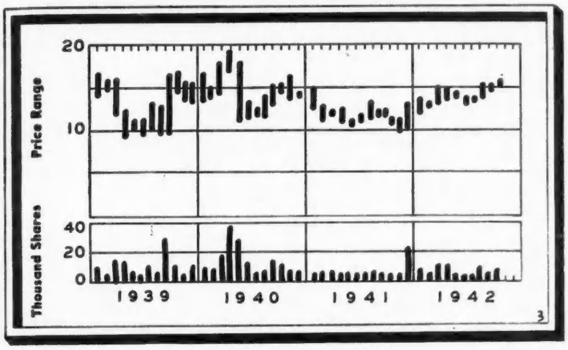
Year	Tot. Rev. (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934..........	$ 8.084	d .297	d 0.77	.....	23½-12
1935..........	9.294	.153	0.40	0.25	22½-11¾
1936..........	11.289	.445	1.14	0.75	38½-21
1937..........	13.815	.744	1.91	1.00	43⅜-10⅛
1938..........	13.702	d.333	d0.85	.....	23¾-12⅛
1939..........	12.882	.544	1.40	0.25	21½-10¼
1940..........	11.121	d.189	d0.48	0.50	16⅝- 8½
1941..........	13.290	.258	0.66	.....	13⅛- 7
1942 (9 mos. Sept.).	NA	d.196	d0.50	.....	*12⅝- 6⅝
1941 (9 mos. Sept.).	NA	.195	0.50	.....	....

NA—Not available. d—Deficit. *To date.

Thumbnail Stock Appraisal

6 Low-Priced Stocks For Capital Building

CAMPBELL, WYANT & CANNON FDRY. CO.



BUSINESS: This company is an important manufacturer of motor blocks for passenger automobiles, trucks and tractors, and also makes automobile brake drums which are sold under the trade mark "Centrifuse." In recent years, company has greatly expanded its steel foundry capacity, thus aiding in handling large volume of war contracts. Latter include parts for aircraft, marine, tank, combat and other engines. Such products embrace cast cylinder liners, camshafts, crankshafts, etc., made from processed alloys. Cast steel treads are also being made for British tanks. Plants of the company, which are located at Muskegon, Mich., have equipment capable of producing 150,000 tons or more of finished motor castings per annum. Plant at South Haven, Mich., is operated as National Motor Castings Division. Company and its licensee, Motor Wheel Corp. of Lansing, have jointly licensed Kelsey-Hayes Wheel Co. of Detroit to manufacture and sell brake drums with fused iron linings under company's brake drum patents.

FINANCIAL POSITION: Despite heavy tax provisions ($1,671,000), balance sheet as of Sept. 30, 1942, exhibited a very satisfactory current position with current assets of $5,335,000, including cash and U. S. Govt. securities of $1,838,000, compared with current liabilities of $2,477,000. No floating or fixed debt was outstanding, and capital stock was represented by 344,925 shares of no-par value. Dividends were resumed in 1935, and have since been continued annually. With payment of $0.50 scheduled for Dec. 12, dividends for 1942 total $1.25.

OUTLOOK: Replacements and additions, as well as research and development activities, have contributed toward improved operating efficiency. Volume of war business, both for American and British manufacturers, should continue high for the duration. Operation of government-owned steel foundry will also be productive of revenues. Net income for 1942 may surpass 1941 results, notwithstanding higher taxes. Dividends will probably be continued on basis approximating recent payments. Large potential post-war demand for motor vehicles should provide offset to shrinkage of war business.

MARKET ACTION:	Campbell W. & C.	Market Average	Campbell's moves in relation to average
'40 high to '41 low.......	49% decline	23% decline	113% wider
'41 low to '41 high.......	9% advance	23% advance	61% narrower
'41 high to '42 low.......	14% advance	27% decline	....
'42 low to '42 high.......	18% advance	33% advance	45% narrower

Average volatility: 53% narrower on advances, than M. W. S. index. Since mid-July, the ratio of market advance has been greater than in the case of the industrial stock averages.

COMMENT: Recent price—16. Increased productive capacity believed to be fully utilized at present. Excellent trade position indicates full participation in peace-time automotive production.

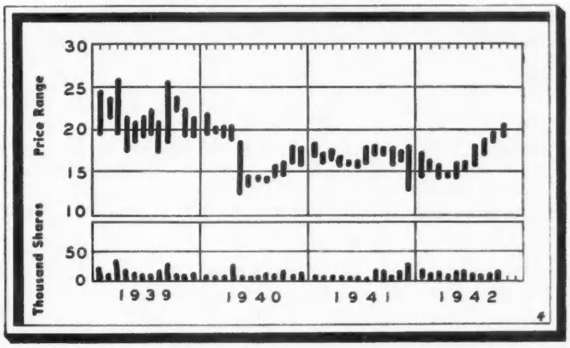
Long-Term Record

Year	Gross Profit (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1935	$ 1.606	.654	1.90	0.65	33⅜- 7½
1936	2.056	1.045	3.04	2.25	40¼-30
1937	2.116	.906	2.62	1.25	37⅜-10
1938	.621	d.112	d0.33	0.25	20½- 8⅝
1939	1.164	.321	0.93	0.20	17¾- 9⅛
1940	1.600	.589	1.71	1.15	19½-11
1941	2.976	.818	2.37	1.60	14⅞- 9⅝
1942 (9 mos. Sept.)	6.570	1.126	3.26	*1.25	*16¾-11⅞
1941 (9 mos. Sept.)	1.701	.538	1.56	.....	....

d—Deficit. *—To date.

Thumbnail Stock Appraisal

FIRESTONE TIRE & RUBBER CO.



BUSINESS: Firestone ranks among the four foremost rubber fabricators, with about two-thirds of normal sales being derived from tires and tubes, and the remainder from a wide range of automobile accessories and mechanical rubber goods, as well as from a variety of plastic items. According to latest advices, the company's second synthetic rubber producing unit was scheduled soon to begin operations, the first such unit having begun production in April, 1942. Company's output consists almost entirely of war work, items including anti-aircraft gun carriages, machine guns, bullet-sealing fuel and oil tanks, among many others. Barrage balloon output has increased over 600% since the beginning of 1942. Company and subsidiaries own and operate 14 manufacturing plants in the United States and 10 in foreign countries. Principal domestic manufacture is centered in Akron, Ohio.

FINANCIAL POSITION: As of Oct. 31, 1941, (date of latest published balance sheet) there were outstanding $50,000,000 of 3% debentures, due in 1961; 465,934 shares of 6% cumulative preferred of $100 par (callable at 105), and 1,937,026 shares of $10 par common. Financial condition was satisfactory, with current assets of $134,837,000, including cash of $13,400,000 and inventories of $74,264,000, compared with current liabilities of $45,520,000, latter including tax provision in the amount of $20,846,000. Dividends on the common have been paid in every year since 1924. Disbursements this year through October 20, total $1.00 per share.

OUTLOOK: Military production assures virtual capacity operations for the duration. Despite higher taxes, it is probable that profits after all charges will continue to make favorable comparison with those of preceding corresponding periods. Synthetic rubber development offers excellent possibilities not only in connection with wartime activities, but also in the years following the termination of hostilities. Dividends will probably be maintained on existing basis with occasional extra disbursements likely.

MARKET ACTION:	Firestone Tire	Market Average	Firestone's moves in relation to average
'40 high to '41 low.......	4% decline	23% decline	83% narrower
'41 low to '41 high.......	16% advance	23% advance	30% narrower
'41 high to '42 low.......	21% decline	27% decline	22% narrower
'42 low to '42 high.......	36% advance	33% advance	9% wider

Average volatility: 53% narrower on declines, 11% narrower on advances, than M. W. S. index. Market recovery in recent months has been well ahead of that of the industrial stock averages.

COMMENT: Recent price—19. Finances seem ample for all prospective needs without further extensive bank borrowings.

Long-Term Record

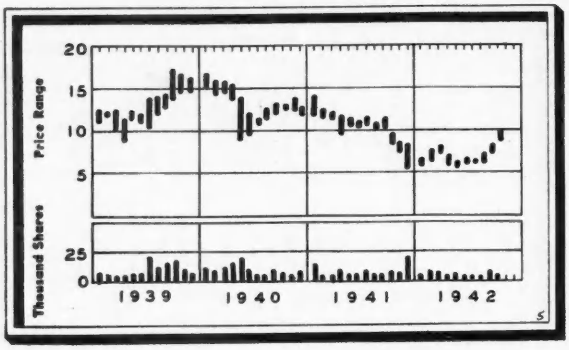
Year	Net Sales (millions)	Net Income (millions)	Net Per Sh. (com.)	Dividends (a)	Price Range
1934	$99.130	$4.155	$0.71	$0.40	25¼-13⅛
1935	121.671	5.649	1.53	0.40	25½-13⅛
1936	135.702	9.143	3.28	1.40	36¼-24⅞
1937	156.823	9.269	3.33	2.00	41⅜-16⅛
1938	141.883	5.258	1.27	1.25	26⅞-16¼
1939	160.119	6.722	2.03	1.00	25½-17⅝
1940	187.209	8.653	3.02	1.25	21¾-12¼
1941	268.092	11.262	4.37	1.50	18½-12¼
1942 (6 mos. April)	NA	5.193	1.97	*1.00	*20½-13⅜
1941 (6 mos. April)	NA	4.789	1.75	.....	....

#—Fiscal year ended Oct. 31. (a)—Paid in calendar year. *—To date. NA—Not available.

Thumbnail Stock Appraisal

6 Low-Priced Stocks For Capital Building

JARVIS (W. B.) CO.



BUSINESS: In peace-time, this concern manufactures a wide line of automobile hardware, including, among other items, handles for window regulators, robe rails, dome lights, truck hardware, and ornamental equipment for cars. Following the conversion to war work (reported to have cost about $225,000), company is understood to be making tank parts and mess kits for the Army, among other items. Hardware for electric refrigerators, office equipment and plumbing fixtures is also manufactured. Plants of the company are situated at Grand Rapids, Mich. Productive facilities have been materially enlarged in the past six years. Among the company's principal peace-time customers are the Chrysler, Ford, Hudson, Nash, Packard, Cadillac and Checker Cab Motor companies; also such large industrial organizations as American Radiator, Standard Sanitary Corporation, and Crane Co.

FINANCIAL POSITION: June 30, 1942, balance sheet shows a strong financial status, with current assets of $1,996,000, including cash and Government securities of $1,761,000, and inventories of only $109,000, comparing with current liabilities of $345,000, of which Federal income tax provision comprised $200,000. Net working capital of $1,650,000 was equal to over 60% of gross assets. Prior to 1935, the capital stock (the sole equity issue) was closely held. In that year, the outstanding 7,870 shares of old no-par common were exchanged for 150,000 shares of new $1 par capital stock. Dividends have been paid annually in ensuing years. There were 300,000 shares of $1 par value outstanding on June 30, 1942. 1942 payments amount to $0.30 through Oct. 26.

OUTLOOK: Orders of military origin will continue to dominate operations of this company for the duration. A recently acquired parts making concern is also adding to total output. Expansion in proportion of non-automotive products will provide greater diversification to activities in the peace years. Some recovery in earnings is anticipated in the current fiscal year. Dividend payments will probably continue to be made at irregular intervals.

MARKET ACTION:	Jarvis Company	Market Average	Jarvis moves in relation to avge
'40 high to '41 low	28% decline	23% decline	22% wider
'41 low to '41 high	4% advance	23% advance	83% narrower
'41 high to '42 low	43% decline	27% decline	59% wider
'42 low to '42 high	69% advance	33% advance	109% wider

Average volatility on four moves: 41% wider on declines; 13% wider on advances, than M. W. S. index. Price advance in recent months has been substantially in excess of that of the industrial stock averages.

COMMENT: Recent price—10. Recent strength in stock is in reflection of prospective earnings recovery in later months of present fiscal year.

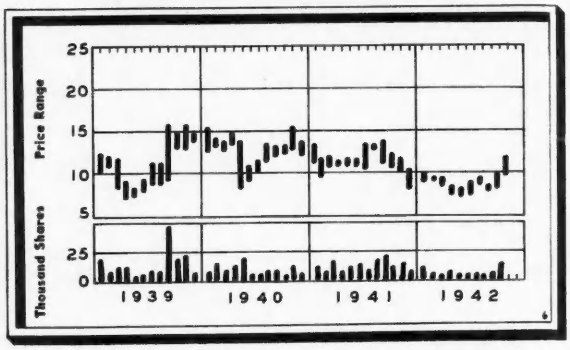
Long-Term Record

Year	Sales (millions)	Net Income (millions)	Net Per Share	Dividends (a)	Price Range
1935	NA	$.388	$2.59	$0.32	....
1936	$3.740	.486	1.62	1.19	13 -9⅛
1937	4.537	.729	2.43	1.44	14⅞-6⅞
1938	2.295	.411	1.37	0.75	13¼-5⅜
1939	3.692	.623	2.08	1.50	18 -9
1940#	3.304	.518	1.73	1.62½	17 -9
1941(b)	6.778	.950	3.17	1.12½	14 -5¼
1942(b)	3.074	.380	1.26	*0.30	*10⅜-5⅝
1942 (3 mos. Sept.)	NA	.130	0.43	.....	....
1941 (3 mos. Sept.)	NA	.161	0.54	.....	....

NA—Not available. #—6 mos. ended Dec. 31. (a)—Paid in calendar year. (b)—Fiscal year ended June 30. *—To date.

Thumbnail Stock Appraisal

RUSTLESS IRON & STEEL CORP.



BUSINESS: Company produces chrome-iron and chrome-nickel-iron alloys, known as stainless or rustless steels. These are made in the form of ingots, billets, slabs and sheet bars, which are sold to converting mills for further processing. Plant of the company is located at Baltimore, Md. Domestic chrome ore supplies are believed adequate. Principal customer is American Rolling Mill Co., which owns over 48% of the common and 19% of the preferred of Rustless. All of the company's production is now utilized in some phase of war work.

FINANCIAL POSITION: Balance sheet as of Sept. 30, 1942, shows current assets of $10,755,000, which included cash of $4,461,000, while current liabilities amounted to $6,102,000, including Federal income tax reserve (net) of $4,057,000. Outstanding funded debt consists of $2,250,000 of debenture 3¼s, due 1956. There are outstanding 36,512 shares of $2.50 cumulative preferred stock of no-par value (convertible into 1½ common shares through Feb. 28, 1943), and 926,209 shares of $1 par common stock. Including an extra of $0.15 paid Dec. 1, dividends on the common stock thus far in 1942 total $0.75 per share. The company has also negotiated bank loans of $300,000, at the rate of 2¼%, due $150,000 each, Oct. 1, 1943 and 1944. An emergency plant bank loan of $663,633 is payable by the Government in sixty monthly payments. Finances of the company are therefore considered to be adequate for all war-time requirements.

OUTLOOK: Demand for stainless steel, which is essential to armament production will assure capacity operations for this organization throughout the war. Sales are rapidly increasing, and it is estimated that the 1942 volume of sales may be three times that of 1940. Stocks on hand of stainless steel scrap are considered sufficient for operations. Despite heavy tax increases, maintenance of recent earnings improvement is probable. Post-war outlook is excellent, with constantly broadening utilization of stainless steel foreseen. Dividends will probably be continued at prevailing $0.60 annual rate, with occasional extras.

MARKET ACTION:	Rustless Iron	Market Average	Rustless' moves in relation to avge
'40 high to '41 low	27% decline	23% decline	17% wider
'41 low to '41 high	17% advance	23% advance	26% narrower
'41 high to '42 low	38% decline	27% decline	41% wider
'42 low to '42 high	66% advance	33% advance	100% wider

Average volatility on four moves: 29% wider on declines; 37% wider on advances than M. W. S. index. Advance in stock over recent months has been far in excess of recovery in industrial stock averages.

COMMENT: Recent price—12. Although keen competition for stainless steels will ensue after the war, company's strong trade position should assure full participation in this business.

Long-Term Record

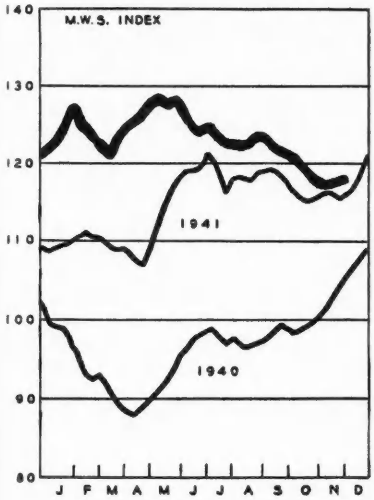
Year	Net Sales (millions)	Net Income (millions)	Net Per Sh. (Com.)	Dividends	Price Range
1934	$ .819	$d.023	$d0.03	.....	....
1935	1.675	.166	0.23	.....	4 -3½
1936	2.647	.351	0.43	.....	13⅞-3⅝
1937	4.193	.713	0.77	.....	17¾-5
1938	2.292	.081	d0.01	.....	12¼-5
1939	6.388	1.091	1.13	0.25	15½-7
1940	11.584	1.276	1.28	0.60	15½-8
1941	25.625	2.335	2.42	0.60	14¾-8¼
1942 (9 mos. Sept.)	23.666	1.887	1.96	*0.75	*13⅜-7
1941 (9 mos. Sept.)	18.148	1.710	1.77	.....	....

d—Deficit. *—To date including extras.

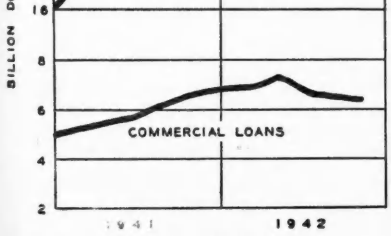
Thumbnail Stock Appraisal

The Business Analyst

BUSINESS ACTIVITY



BUSINESS CREDIT



FEDERAL RESERVE MEMBER BANKS

CONCLUSIONS

INDUSTRY—Nine-months' profits off only 5%. Rehabilitation of war ravished countries and release of pent up domestic demand assure post-war prosperity after brief transition period.

TRADE—Holiday retail sales promise to top last year's record.

COMMODITIES—Prices continue upward. Dow Jones Index rose to best level since mid-July last week.

MONEY AND CREDIT—Banking authorities relax regulations to encourage purchase of U. S. securities. Foreign Government bonds soar to new war-time heights.

Per capita **business activity** has risen over a point since our last issue; though electric power output and steel ingot production show somewhat less than normal seasonal improvement. Average for November was about 117.6, compared with 117.3 in October and 116.0 for November, 1941. Without compensation for population growth, this publication's index of business activity rose during November to 143% of the 1923-5 average, from 142 in October, and showed a gain of 4.7% over November of last year. According to the Federal Reserve Board, well over 50% of our **industrial production** is now for war purposes, with only 20% of durable goods output earmarked for civilian needs. Output of non-durables still remains a little higher than a year ago; but even here a large slice is going to our armed forces and for lease-lend aid.

* * *

With expansion of plant and equipment for war needs nearing completion, and with our part in the war shifting from defensive preparation to active participation, industrial activities will soon enter upon a new phase involving many readjustments. As **construction** tapers off, building workers and steel will be released for other urgent needs. **Steel**—except alloys—will soon be in somewhat better supply for repair work and other imperative needs, such as **railroad equipment.** Smaller **machine tool** plants, started during the war, are being warned to change over within the next six months to other war

(Please turn to the following page)

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Oct.	188	185	164
INDEX OF PRODUCTION AND TRADE (b)	Oct.	121	120	110
Production	Oct.	130	129	116
Durable Goods	Oct.	153	148	125
Non-durable Goods	Oct.	113	113	111
Primary Distribution	Oct.	138	135	116
Distribution to Consumers	Oct.	89	89	94
Miscellaneous Services	Oct.	127	128	103
WHOLESALE PRICES (h)	Nov.	100.1	99.7	92.3
COST OF LIVING (d)				
All items	Oct.	99.5	98.6	91.9
Food	Oct.	105.4	102.8	90.7
Housing	Oct.	90.8	90.8	89.2
Clothing	Oct.	88.5	88.4	78.3
Fuel and Light	Oct.	90.5	90.5	90.0
Sundries	Oct.	104.8	104.7	101.2
Purchasing Value of Dollar	Oct.	100.5	101.4	108.8
NATIONAL INCOME (cm)†	Sept.	$10,128	9,157	8,280
CASH FARM INCOME†				
Farm Marketing	Sept.	$1,707	1,412	1,286
Including Gov't Payments	Sept.	1,734	1,435	1,314
Prices Received by Farmers (ee)	Sept.	160	161	136
Prices Paid by Farmers (ee)	Sept.	152	152	138
Ratio Prices Received to Prices Paid (ee)	Sept.	107	107	102
FACTORY EMPLOYMENT (f)				
Durable Goods	Sept.	167.2	165.7	141.3
Non-durable Goods	Sept.	123.8	125.2	123.8
FACTORY PAYROLLS (f)	Sept.	220.5	214.7	162.6
RETAIL TRADE				
Retail Store Sales $†	Sept.	$4,879	4,678	4,583
Durable Goods (a)	Sept.	104.7	106.5	137.8
Non-durable Goods (a)	Sept.	161.4	166.0	140.5
Chain Store Sales (g)	Oct.	181	183	146
Retail Prices (s) as of	Oct.	113.1	113.1	106.2
FOREIGN TRADE				
Merchandise Exports†	Oct.	$768	$712	$647
Cumulative year's total† to	Oct.	6,174	......	3,901
Merchandise Imports†	Oct.	223	199	292
Cumulative Year's total† to	Oct.	2,181	......	2,607
RAILROAD EARNINGS				
Total Operating Revenues★	Sept.	$697,792	683,806	488,978
Total Operating Expenditures★	Sept.	399,705	399,292	312,288
Taxes★	Sept.	127,258	132,893	61,147
Net Rwy. Operating Income★	Sept.	154,631	135,264	104,357
Operating Ratio %	Sept.	57.28	58.39	63.87
STEEL				
Ingot Production in tons★	Oct.	7,584	7,067	7,236
Year's Total Production★ to	Oct.	71,603	64,019	68,725
Shipments, U. S. Steel in tons★	Oct.	1,787	1,703	1,851
GENERAL				
Paperboard, new orders (st)	Sept.	444,131	423,399	542,792
Lumber Production† (bd. ft.)	Sept.	2,751	2,902	2,943
Cigaret Production†	Oct.	23,096	21,798	19,633
Bituminous Coal Production★ (tons)	Oct.	51,065	48,760	51,328
Portland Cement Shipments★ (bbls.)	Oct.	20,344	20,145	17,833
Commercial Failures (c)	Oct.	673	556	809

PRESENT POSITION AND OUTLOOK

(Continued from page 243)

products; since next year there will not be enough new orders to keep all plants busy. Accumulation of large reserves is necessitating a sharp cut in production of amunition and heavy ordnance items to permit diversion of critical materials for increased output of **planes** and **ships.**

* * *

Recent weakness in war stocks, with accompanying strength in peace stocks—together with the rise in prices for **foreign government bonds** to new war-time highs—indicate that investors, though probably over-optimistic as to the war's duration, entertain no doubts as to its ultimate outcome. Among numerous current conjectures as to the post-war outlook a few appear to be sufficiently well grounded to merit mention at this time. **Post-war rehabilitation** of war ravished countries will create a tremendous demand for our foodstuffs, material, equipment and engineering talent. This, along with release of the pent up domestic need for goods that were scarce during the war, will assure post-war prosperity for a number of years, after a relatively brief dip while plants are being changed back and surplus inventories in certain lines are being absorbed. To expedite resumption of peace time production for civilian needs most heavy goods industries, of which the **automobile** is typical, will begin where they left off, postponing for some future date the introduction of radically new models.

* * *

Profits for nine months, as reported by 390 corporations with common stock listed on the New York Stock Exchange, averaged 16.3% lower than for the like period last year. The Commerce Department estimates, however, that net profits of all domestic corporations after taxes, but before reserves for contingencies (disallowed by the Treasury), totaled $4.9 billion—a decrease of only 5%. Groups showing **increases** were: agriculture, 50%; electrical machinery, 3%; transportation equipment, 60%; retail trade, 14%; construction, 32%; transportation, 35%; communications, 7%; finance, 0.3%; and service, 23%. Groups showing **decreases** were: Mining, 7%; food, beverages and tobacco, 5%; textiles and leather, 35%; lumber and its products, 27%; paper, 23%; printing and publishing, 39%; chemicals, 19%; oil refining, 13%; stone, clay and glass, 40%; iron and steel, 27%; non-ferrous metals, 15%; machinery (except electrical), 14%; automobiles and equipment, 23%; rubber, 23%; wholesale trade, 26%; power and gas, 19%.

* * *

Commerce Department points out that part of the 8.6% decline in **dividends** paid during the first nine months, compared with the like period in 1941, is attributable to heavier payments last year of arrearages on preferred stock.

* * *

The U. S. Census Bureau estimates that **state collections** of personal income taxes this year will be 40% ahead of 1941 which, in turn, were 13% over 1940. Next year's collections from this

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Nov. 21	117.1	117.1	115.9
ELECTRIC POWER OUTPUT				
K. W. H.†	Nov. 28	3,766	3,795	3,339
TRANSPORTATION				
Carloadings, total	Nov. 28	743,533	836,427	866,180
Grain	Nov. 28	39,078	45,690	40,902
Coal	Nov. 28	153,563	167,404	164,310
Forest Products	Nov. 28	36,421	42,233	44,447
Manufacturing & Miscellaneous	Nov. 28	357,293	396,989	385,605
L. C. L. Mdse	Nov. 28	81,807	91,541	152,503
STEEL PRICES				
Pig Iron $ per ton (m)	Dec. 7	23.61	23.61	23.61
Scrap $ per ton (m)	Dec. 7	19.17	19.17	19.17
Finished c per lb. (m)	Dec. 7	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Dec. 3	99.5	99.5	97.0
PETROLEUM				
Average Daily Production bbls.*	Nov. 28	3,878	3,912	4,086
Crude Runs to Stills Avge. bbls.*	Nov. 28	3,736	3,722	4,145
Total Gasoline Stocks bbls.*	Nov. 28	78,854	78,583	86,889
Fuel Oil Stocks bbls.*	Nov. 28	77,796	77,012	94,817
Crude—Mid-Cont. $ per bbl	Dec. 7	1.17	1.17	1.17
Crude Pennsylvania $ per bbl	Dec. 7	2.55	2.55	2.23
Gasoline—Refinery $ per gal	Dec. 7	9.092	0.117	0.85
ENGINEERING CONSTRUCTION				
Volume* (en)	Dec. 3	$103,143	65,929	93,488

PRESENT POSITION AND OUTLOOK

source should be even larger, but are expected to level off in 1944, because war production may reach its maximum next year.

* * *

Holding that U. S. Government securities are the soundest of investments, supervisory authorities, in order to encourage **banks** to acquire such securities, will disregard the rule requiring a 10-to-1 ratio between deposits and capital and will pose no other deterrents in examination or supervisory policy.

* * *

Department store sales in the week ended Nov. 21, due largely to an earlier Thanksgiving last year, were 30% above the like period in 1941, compared with gains of only 19% for four weeks and 11% for the year to date. Commerce Department estimates that the nation's **retail sales** in the final four months of 1942 will top the like period last year by 6% in dollar total; but will decline 4% in physical volume. Including lease-lend, but excluding shipments for our Armed Forces overseas (which were included in World War I **foreign trade** figures), our excess exports for ten months this year have amounted to $4 billion, against only $1.3 billion for the like period last year.

†—Millions. *—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (en)—Engineering News-Record. (f)—1923-25—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (st)—short tons.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

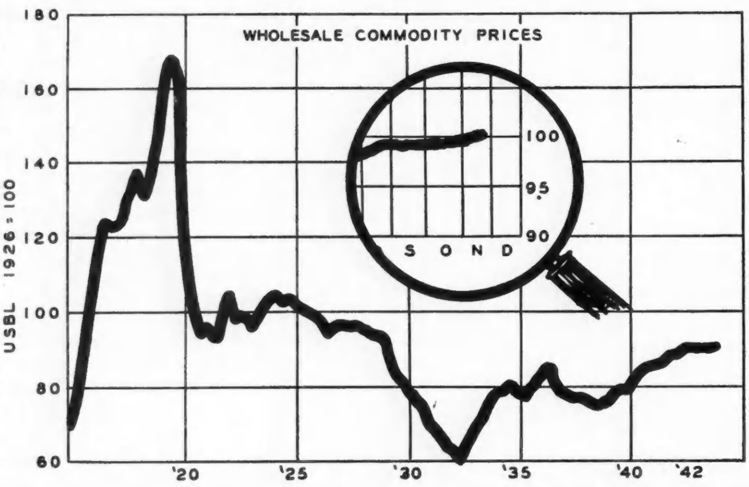
No. of Issues (1925 Close—100)	1942 Indexes High	Low	Nov. 28	Dec. 5
270 COMBINED AVERAGE	55.3	41.4	52.8	52.3
3 Agricultural Implements	93.9	72.7	90.3	93.9A
9 Aircraft (1927 Cl.—100)	172.6	123.8	132.2	130.4
4 Air Lines (1934 Cl.—100)	350.5	178.4	350.0	350.5B
5 Amusements	41.3	27.0	39.9	41.0
13 Automobile Accessories	89.2	70.4	83.9	80.6
13 Automobiles	11.1	7.1	9.9	10.0
3 Baking (1926 Cl.—100)	8.1	5.0	7.6	7.5
3 Business Machines	122.5	81.7	119.5	120.2
2 Bus Lines (1926 Cl.—100)	64.6	38.2	55.4	59.0
6 Chemicals	156.3	126.3	150.2	148.4
14 Construction	23.2	16.4	23.2A	22.3
5 Containers	173.5	138.4	172.5	170.6
8 Copper & Brass	75.1	58.6	64.1	64.2
2 Dairy Products	30.1	25.5	28.5	28.9
6 Department Stores	16.3	12.4	15.3	15.2
6 Drugs & Toilet Articles	52.0	37.1	51.2	50.5
2 Finance Companies	167.3	99.5	165.5	167.3A
7 Food Brands	82.8	60.6	82.8A	82.0
2 Food Stores	43.7	32.2	38.2	39.0
4 Furniture	32.5	23.7	32.0	32.4
2 Gold Mining	631.7	315.4	574.4	551.7
6 Investment Trusts	22.9	13.8	20.4	21.1

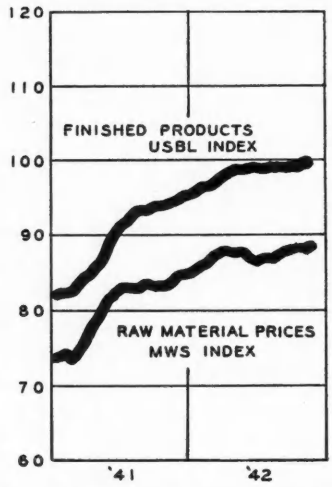
(Nov. 14, 1936, Cl.—100)	1942 Indexes High	Low	Nov. 28	Dec. 5
100 HIGH PRICED STOCKS	53.35	43.20	50.85	50.95
100 LOW PRICED STOCKS	44.60	31.66	42.50	41.67
3 Liquor (1932 Cl.—100)	194.3	137.5	190.0	191.1
8 Machinery	83.8	67.9	77.7	77.5
2 Mail Order	63.2	45.2	63.2A	61.5
4 Meat Packing	46.0	29.5	35.9	36.0
9 Metals, non-Ferrous	131.7	100.0	108.2	104.6
3 Paper	11.3	8.8	9.0	8.9
21 Petroleum	84.2	59.8	81.1	81.4
16 Public Utilities	23.7	13.7	21.7	20.3
3 Radio (1927 Cl.—100)	11.3	5.9	10.9	10.5
7 Railroad Equipment	37.9	28.6	31.3	31.5
16 Railroads	11.0	7.6	9.7	9.8
2 Realty	2.3	1.3	1.5	1.5
2 Shipbuilding	112.0	80.0	80.0b	81.5
12 Steel & Iron	65.0	53.1	56.8	56.4
2 Sugar	40.1	26.5	31.4	30.6
2 Sulphur	183.0	137.5	173.0	176.0
3 Telephone & Telegraph	68.1	30.6	68.1E	60.5
2 Textiles	34.8	24.4	33.0	33.6
3 Tires & Rubber	15.5	7.9	15.3	15.5
4 Tobacco	55.3	40.7	50.0	49.0
2 Variety Stores	187.2	147.7	180.4	180.6
19 Unclassified (1941 Cl.—100)	128.6	90.8	128.6A	124.6

New HIGHS since: A—1941; B—1940; E—1937. b—New LOW since 1940.

Trend of Commodities

Commodity prices continue to follow an irregular pattern. No future trends as to either prices or market volume are at present within the realm of prediction. The trading pace has definitely slackened as operators turned to Washington for coming market clues. On one day, profit taking causes the grain market to move lower. On another, light short covering and mill buying causes prices to rebound with final values showing little change. Cotton has benefitted from the House passage of the Pace Bill to permit the inclusion of labor costs in the calculation of farm parity prices, and resulted in a fourth advance in cotton futures on December 3. Rye has been suffering a decline in price, due partially to profit taking, and largely to a present slow demand for this grain. Cash corn prices are approaching the loan level and a feeling prevails that country marketings will increase. In the metal markets there has recently been a good demand for lead for December delivery. In the zinc industry December allocation presentations are coming through rapidly.





U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1929, equal 100

	Dec. 4	Nov. 27		Dec. 4	Nov. 27
28 Basic Commodities	170.4	170.1	Domestic Agricultural	188.1	187.1
Import Commodities	162.3	162.0	Foodstuffs	193.0	192.5
Domestic Commodities	175.9	175.6	Raw Industrial	155.1	154.9

Commodity Briefs

Wheat. Not much market attention has been paid to the current increase in wheat loans. The volume expanded by 12 million bushels during the week ended Nov. 21. As of that date the C.C.C. had completed 452,157 loans on 325,019,037 bushels of 1942 wheat in the amount of $367,368,171. The average amount advanced was $1.13 per bushel. On the same date last year 473,488 loans had been completed, on 318,806,387 bushels. The actual figures of current loans are believed to be near 400 million bushels because of the inevitable time lag between negotiation of the loans and compilation of the reports made public.

Leather. The existing shipping shortage and a marked scarcity of skilled workers in the tanning industry are reported to be responsible for current leather output being below the 1941 level. The 1942 cattle hide supply is now estimated at 12 per cent below a year ago. The Federal Reserve Board's unadjusted index of leather production stood at 113 in October compared with 112 in September and 127 in 1941.

Sugar. The eastern sugar situation is now definitely rated as favorable. Demand in this section of the country for refined sugar is reported slow. On the other hand raw sugar arrivals are holding up fairly well. As a result refiners are continuing to build up a modest stock pile. This trend is now expected to continue for the rest of the year barring new large government orders for military and lease-lend deliveries. While it is yet far too early to anticipate the next domestic sugar quota allotments for the period starting Dec. 16, trade quarters confidently lean to the view that the present rate of allotments will continue including the half pound per person and the 70 per cent of normal for industrial users.

Butter. The situation regarding this probably next rationed food product, continues unfavorable. Weekly production of butter in October ranged from 1 to 5 per cent below a year earlier. In some instances distributors are now finding it difficult to supply their regular customers. However, no general butter shortage has developed as yet. The demand for butter still is at a high level. The commercial out-of-storage movement of the product in October was 40 million pounds, compared with 19 million pounds in 1941. Also commercial stocks of butter on Nov. 1 were 83 million pounds, compared with 182 million pounds a year earlier, and a five-year average of 103 million pounds.

Silver. The Senate Banking Committee has given formal approval to a bill permitting the sale or lease of unpledged government silver for consumptive uses in industry "in furtherance of the war effort."

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1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

United Carbon Company

How is United Carbon increasing its earnings when its biggest customer under normal conditions, the tire and rubber industry, is so curtailed? By how much will synthetic rubber production be increased in 1943? I notice that natural gas production is increasing in importance—but has it surpassed carbon black as the company's big profit producers? Will rising trend in natural gas prices continue? Is the company improving its inventory position? Will the $3 dividend be maintained this year and in 1943? Is the financial structure getting stronger or weaker? Because your comment on United Carbon was favorable in your July 25 edition I bought 100 shares at 45. It has advanced to 53¾ at this writing. Because you are responsible for this 20% profit, I want you to guide me further now as to whether to take profits or buy more?—R. S. C., Pittsburgh, Pa.

United Carbon Co. and subsidiaries, in a report for the nine months ended September 30, 1942, show a net of $1,285,842 after depreciation and depletion, minority interest, Federal income and excess profits taxes, etc. equal to $3.23 a share on 397,995 shares of capital stock. This compares with a net profit of $1,214,561 or $3.05 a share for the nine months ended September 30, 1941. Provision for Federal income taxes for the first nine months of 1942 amounted to $636,000 and excess profits taxes aggregated $550,000 against $575,000 and $310,000 respectively, in the first nine months of 1941. Current assets of September 30, 1942, including $1,722,000 cash, amounted to $4,752,200 and current liabilities were $985,706. This compares with cash of $1,207,214, current assets of $3,665,427 and current liabilities of $1,274,841 on September 30, 1941. From this it would seem that the ratio of current assets to current liabilities is improving. The best year, using this important balance sheet formula, was 1938, at the close of which the ratio was 4.9 to 1, declining therefrom to 1.72 at the close of 1941. This decline in ratio was caused by increased taxes and the reserve for taxes. But, the latest balance sheet indicates that this difficulty is being overcome. The turnover of inventory feature of the company's balance sheet, that is to say, the ratio of inventory to sales stood at 11.22 in 1939, declining to 7.72 at the end of 1941. The two indexes tend to be similar in their trend. As turnover of inventory declines other effects appear in the balance sheet and usually a declining percentage of cash to current assets makes its appearance. Latest balance sheet eliminates any worry on this score as the margin of profit has been holding up well, the cost of sales having declined steadily from 66 per cent in 1939 to below 50 per cent in 1941, and must perforce be still lower on the nine months statement in view of results of improved earnings over last year.

The company experienced record sales in 1941 with their total 34½ per cent above 1940. Net profits as a consequence of the improved volume were up 28 per cent. The heavier demand from the rubber companies accounted for the major portion of the larger volume of carbon black sold to the domestic market in 1941 aggregating 22 per cent. Exports were down 24 per cent in 1941 as against 1940. The president reported "Although the sales of carbon black in the domestic market reflects an improvement in the price structure over depressed levels of the past several years, price adjustments which took place in 1941 failed to meet the further increase in cost of labor, supplies, taxes and other expenses. As a result therefore and because of reduced revenue from export sales the OPA authorized an increase in price, amounting to slightly less than 5 per cent, on shipments beginning January 1, 1942. Restrictions on the use of crude rubber for tire manufacture are temporarily reducing consumption of carbon black. However, since synthetic rubber also depends to practically an equal degree on carbon black for reinforcement, new supplies of this material may help demand for carbon black. Our research department has been working closely with manu-

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facturers of synthetic rubber on the adaptability of carbon black in synthetic products."

Industrial activity for war purposes accelerated the demand for natural gas and was responsible for a gain of 19 per cent to $4,697,741 as compared with 1940. The company augmented its gas supply for sale to pipe line companies by the drilling and purchase of 37 producing wells in West Virginia, 22 in Kentucky and 2 in Louisiana. The President pointed out that present drilling operations covering both gas and oil are retarded by regulations issued by the Office of Petroleum Coordinated for National Defense, restricting the size of wells to be drilled. It was feared that this might affect the continuous development program for the current year insofar as natural gas was concerned. In view of the company's increased earnings the assumption is that, to date, these restrictions have not harmed the company as much as was feared. While the carbon black business is well below a year ago, diversification of United Carbon Co. in other fields has indeed proved helpful. As the synthetic rubber program gets under way in 1943, the carbon black business should begin to improve. The rubber industry normally accounts for 85 per cent of the consumption of carbon black. This year's output of synthetic rubber is expected to approximate 35,000 tons, but by the end of 1943 the production should be in the neighborhood of 250,000 tons. This however, is still only one-third of the normal rubber manufactured in the United States. The natural gas production of the company has surpassed carbon black as the bigger profit producer. The rising trend in natural gas prices will be accelerated almost beyond doubt due to war demands. The inventory position of the company has been very much improved in the last statement over the one of the prior year as shown by the fact that cash assets improved some $500,000. As there are but 397,885 shares of common stock outstanding with no funded debt, the stock naturally tends to have wide swings, currently selling at 54¾. The low of the year was 37 making it, from a stockmarket standpoint, one of the leaders of the present rise. There is small reason to doubt the continuance of the $3 dividend, disclosing a security which one should have in one's portfolio. However, for the short-term a price rise of nearly 50 per cent in a market in which the average share price rise has been only 25 per cent would incline the prudent investor to accept at least some portion of his profit.

Commercial Solvents

I have been wondering what to do with my 125 shares of Commercial Solvents bought at 9 last year. Earnings seem to be in an uptrend but the market action has me worried. Can the new products the company is making continue to increase income in spite of taxes? What's the news on their new vitamin concentrates? Have they gotten any new patents lately—are any important ones expiring? As an old subscriber please write me the whole story concisely. What can I expect in dividends? Has the working capital position of the company changed in recent years? What about turnover? Sales? Let me know plainly what to do with my shares—hold, sell or buy more?—A. B. F., New Orleans, La. •

Commercial Solvents Corp. has long been one of this country's largest manufacturers of alcohol fermented from grains and molasses. Alcohol is one of the most important of the numerous solvents that are indispensable in the making of many articles of necessity in war.

In addition to its use as solvents alcohol forms the basic raw materials for the manufacture of ethers, formaldehyde, esthers, and catones. These products are the most important ingredients used in the manufacture of lacquers, paints, synthetic rosin, perfumes, drugs, cellulose products and an almost infinite variety of the new synthetic organic chemicals which have recently become so useful to the national effort.

Alcohol is made by fermentation or through synthesis of coal tar products or petroleum gasses. The natural process is by far the more important and produces the largest volume of alcohol. Ethyl alcohol, derived from grain fermentation, is the largest from a commercial point of view. The amount of ethyl alcohol consumed is second only to that of water.

This company, together with U. S. Industrial Alcohol Co., manufactures about 25 per cent of all the alcohol produced in the United States for commercial purposes. Beginning as a maker of butyl alcohol, a specialty derived from the fermentation of the germ of corn grain, the company was forced into competition with other alcohol manufacturers when the basic patents on this fermentation method expired. Before that time they enjoyed a profitable monopoly for the product that is credited with having been instrumental in making possible the rapid production of automobiles today. This was because butyl alcohol was the base for the manufacture of spraying lacquer, which in turn reduced the time necessary to paint an automobile body to less than one hour from twelve days. The butyl alcohol patents expired in 1938. Sales of almost $46,000,000 in 1937 were changed to $31,446,413 in 1938. They rose again in 1940 reaching nearly $44,000,000, and in 1941 surpassed all previous records to a total of $66,410,539. A good proportion of this return to high prosperity has been due to vitamin concentrate, a new ammonia plant in Louisiana, and new patents "nitroparaffin" of which the company is now marketing 16 types. The original patents of this company were derived from Chaim Weizman, who in turn, made the discoveries as a desperate war situation in the first World War. British ammunition having failed very badly in battle the cause was ascertained to be poor quality of the alcohol derivatives used therein. Weizman, at that time a research professor in an English unversity, was asked to investigate the fermentation of alcohol in order to cure this difficulty. He did so with the result that the peacetime uses of his process were one of the few truly enormous benefits of the war. These patents expired September, 1936, in anticipation of which more economical manufacturing processes were developed for producing the basic solvents which the company had discovered by research of their own. This involved the changeover from corn to molasses as the raw material used. The principal products of the company today are acetonel, used chiefly in the manufacture of cellulose and acetate rayons and in the manufacture of explosives, non-smokeless powder, etc. Alcohol made from molasses in completely denatured form is used mainly as anti-freeze for automobiles. Alcohol grain, made from corn, is used chiefly in whiskey blending and the manufacture of gin. Butyl alcohol and butyl acetate are used in lacquers, photographic films, plastics

(*Please turn to page 255*)

Stockholders' Forum

(*Continued from page 223*)

was extra compensation paid. The total amount of it was not stated. The basis of individual participation was not stated except that it excluded the officer-directors and employees eligible to participate in a Sales Incentive Plan. The Sales Incentive Plan was not described, nor total payments under it—if any—revealed. It is beside our point that this or that incentive plan—and incentive plans have their indirect benefits to stockholders in many cases—has gone through the formality of majority stockholder ratification. It is also beside our point that the sums of extra or incentive compensation involved here very likely are fair and reasonable.

Now let us look for a moment at another company whose policy in reports to stockholders is at the opposite pole from that of General Foods. and which is subject to criticism on far more numerous and essential counts. Peculiarly enough, this is also a "good" company—New Jersey Zinc. As far back as our available records go—which is 42 years—it has an excellent earnings-dividend record. In each of those 42 years it has paid very substantial and fairly stable dividends, which is remarkable for a mining enterprise. Last year it paid $4 on the stock on earnings of $4.88, the dividend—allowing for stock split—exceeding payments in any year of the period 1923-1928.

Yet this company's reports to stockholders could be printed on a post-card. It states "income," "dividends from subsidiary companies and proceeds from patents, etc." as a single figure and "total net income." It also states dividends paid and surplus for the period covered. Nothing whatever is revealed as to sales or gross income, nor as to deductions for operating expenses, taxes, maintenance, depreciation and depletion, contingencies. So far as can be ascertained, this company has never issued a balance sheet.

In 1934 certain operating and balance sheet figures were published by the *Annalist*, which stated they had been obtained from court records. These revealed that over the period 1926-1934 net income had ranged from 24.9 per cent to 35.9 per cent of dollar sales—a strikingly high profit ratio. They also revealed a then working capital ratio of about 45 to 1. Roughly, out of total stated assets of $85 millions, $60 millions was net quick assets. And out of total current assets of $60 million, no less than $41 million was represented by cash and marketable securities.

It's a pretty safe bet that New Jersey Zinc's balance sheet as of the end of any recent year would be decidedly impressive—but stockholders have to take it on faith.

Of course, this company is not listed on the New York Stock Exchange. No company issuing such skimpy information on its operations could meet that institution's listing requirements. The stock is traded on the New York Curb Exchange, where a typical week's volume might average 700 to 1,400 shares.

If a company's stock is traded on any exchange—which in effect invites public participation for investment or speculation—it would seem proper that it should be required, by the S E C if necessary, to issue adequate financial statements and balance sheets.

As heretofore said, this happens to be a strong company with a notably good earnings-dividend record. Though paternalistic in its attitude toward shareholders, the management could not be otherwise than highly competent to get such results. That does not alter our opinion that stockholders are fairly entitled to more adequate information. With adequate reporting required neither by the Curb Exchange nor the S E C, what about the position of shareholders in companies which—for all that such shareholders know—may be less ably and honestly managed than New Jersey Zinc?

Beech Nut Packing is still another "good" company. We have always admired its management. It is capable and fair-minded. The top executives are large stockholders who draw notably modest salaries. Yet we have one quarrel to pick with Beech Nut. It never reports sales figures. This lack is not vital to stockholders, and probably the company could give a plausible explanation as to why it prefers to keep sales figures confidential. Nevertheless one must notice that various other companies also in the packaged foods business, including General Foods and Standard Brands, find it quite feasible and proper to publish sales data quarterly and annually. Why not Beech Nut?

On the whole, over the past decade or so, there has been a great improvement in corporate reporting as regards the adequacy and frankness of the material revealed. Part of the credit goes to the New York Stock Exchange. Part of it belongs to the moral pressure exerted by stockholder and public opinion. Part of it attaches to the direct and indirect effects of New Deal-S E C reforms. Part of it is simply a more enlightened "we-live-in-a-glass-house" attitude on the part of a majority of corporate managements. But the battle for "corporate democracy" has not yet been fully won and all of us who want to help preserve a healthy private enterprise system must keep up the pressure.

What can you do as a stockholder?

Answer: You can study your company's reports and proxies with much greater care and act with greater intelligence upon proposals submitted for your ratification. You can in all probability make a much greater effort to attend the annual stockholder meetings and ask questions freely. (Meetings held even in New York City seldom attract more than 100 to 200 shareholders—and managements can't be blamed for that.) Finally, you can write your corporate executives in very plain English if you think you have a bone to pick with them.

But, you object: "I'm just one stockholder." True enough—but you also are just one voter. Your one vote—or your one letter to a Senator or Representative—does not have much weight. But when many of you think and act alike, the election swings the way you wish and Congress listens to you. That's democracy. If it works effectively in the relation of citizens to the Government, why can't it be made to work more effectively in the relation of absentee stockholders to corporate managements?

Democracy cannot be a manufactured, synthetic product. It works from the bottom up. It has its roots and origins in the people. Corporate democracy must have its origins primarily in the assertiveness of the stockholders as individuals.

What Will It Take to Pay for This War?

(*Continued from page 221*)

question on theoretical grounds is really a waste of time. What we *have* to do in production, we manage to do. We shall *have* to manage successfully a Federal debt of somewhere between $200,000,000,000 and $300,000,000,000—and we will do it.

The crucial matter is not the size of the debt as such, but its relation to the national income. To validate the prospective debt, to collect taxes in adequate total, and to satisfy the economic and social aspirations of our people the Government will *have* to follow policies inducing or permitting the highest possible production of national income, without radical depreciation in the purchasing value of the dollar. This is a "people's war," not only in the fighting but also in the financing. For every rich man who is buying war bonds there are thousands of little fellows—and a great many millions of the latter will pay income taxes next year for the first time. In the environment being created, "monkey business" with money by the present, or any other, Administration would be sheer political suicide.

There is no denying that the New Deal policy has already effected a major redistribution in the national income, and that this is being intensified both by war-time taxation and by the divergent influences on production in a war economy. Naturally, the war activity has been far more favorable to the economic status of industrial workers—including large numbers of middle-income technicians—and to the farmers than to other classes in our population. Many millions in the latter classes, even aside from higher taxes, have had no increase in income. There has been, and is continuing, a leveling down at the top, a leveling up at the bottom. The rich have got poorer, the poor have got richer.

However, even if one concedes that the range of income disparity in the past has been too great—with respect both to social equity and to the maximum productivity of an economic system which so greatly depends on mass production and consumption—the other side of it is

that an excessive swing of this pendulum would dangerously reduce private savings-investment and thereby force us to ever greater reliance upon Government spending not only as a regulator but as the backbone of the economy. It is much to be doubted that a majority of our people want that. If that is true, it seems a foregone conclusion—as will probably begin to be indicated by the New Congress—that the Left Wing of the New Deal is fighting a losing fight for further radical ventures in "social reform."

A British conservative — Capt. Oliver Lyttleton, Minister of Production—recently put the problem in a very neat nutshell when he stated that the essence of a workable democratic system is "a balance between the organizing power of the state and the driving power of the free individual."

The New Deal ideology cannot give us such a balance and neither could a Harding-type Government. The former tips the scale much too greatly toward the organizing power of the state. The latter would overrate what private initiative can do in a modern industrial world, without adequate compensatory and regulatory action by the state.

Just as we need to shape the peace by the manner in which we fight the war, we need to shape our future economic-financial system by the manner in which we finance the war. In the last tax bill a start was made in the right direction by Congress—not by the Administration. For the first time in years very real consideration was given to the continuing health of the private enterprise goose which has heretofore laid the golden eggs.

But we shall have to go much further. The present Federal tax structure is a patch-work monstrosity, created by innumerable improvised additions, rather than a planned edifice constructed on the one hand to provide the needed Federal revenues and on the other hand to unleash to maximum possible extent "the driving power of the free individual."

As we finance the war and turn our thoughts to the financing of peace-time production in the future, the biggest of all political issues—and struggles—confronting us will be that summed by Capt. Lyttleton: the finding of an acceptable, workable and productive "balance" between the organizing power of the state and the driving power of competitive private initiative. This is not an academic matter. The political struggle of which it is the heart has already begun and will continue to a decision.

Market Potentials in Auto Accessories

(Continued from page 232)

industrial use. Military orders are believed to have fully offset the loss of automotive trade. As indicated by the decline in net income to $2.02 per share of capital stock (outstanding in the amount of 628,100 shares of no par value) for the nine months ended with Sept. 30, last, from $2.78 per share in the similar 1941 period, profits for the full year will probably fall below the $3.27 per share reported last year. Dividends, which have been paid in every year by this and predecessor concerns since 1895, amount to $2 this year, with latest payment of 87½ cents on Dec. 15, thus equalling the 1941 disbursements. The stock appears attractive for income.

Earnings of 90 cents per share of Stewart-Warner Corp. for the nine months ended Sept. 30, 1942, compared with $1.08 per share (on the outstanding 1,272,995 shares of $5 par value, the only capital obligation) in the same 1941 period, can be considered satisfactory, in view of the great increase in taxes during that period. Operations are devoted almost entirely to war work. Finances were strong on Sept. 30, last, and working capital appears sufficient for all requirements. Although about one-half of normal revenues is derived from sale of automobile products, other divisions, such as radios, electric refrigerators, die castings, furniture, hardware and (more recently) ranges and hot-water heaters are also important income producers. Dividends this year through Dec. 28 amount to 50 cents per share, equal to those paid in 1940 and 1941. As a low-priced speculation, the capital stock has merit.

Heavy volume on war orders has compelled Timken-Detroit Axle Co. to negotiate a 10-year $10 million debenture loan with two large insurance companies in order to provide adequate working capital. The loan bears 3% interest, and will be retired in a minimum amount of $1 million yearly. Profits for the fiscal year ended June 30, 1942, were equal to $5.25 per share on the 991,975 shares of no-par capital stock, compared with $5.01 in the previous fiscal year. Military equipment being produced by the company includes heavy-duty axles for army vehicles, forgings and other ordnance material. Latest dividend is one of 75 cents paid Dec. 5, 1942, bringing total payments for the year to $3.25, compared with $4.25 per share in 1941. Although the need to provide for reducing of debentures may compel a more conservative dividend policy, the optimistic earnings outlooks accords the common shares considerable speculative appeal.

Large tax allowances for the first nine months of this year checked the profit recovery of Timken Roller Bearing Co., that had been in progress since 1939. Net income for that interim was equal to $1.98 per share on the 2,419,380 shares of no-par capital stock, the only capital liability, compared with $3.16 per share on 2,000 fewer shares outstanding on Sept. 30, 1941. Loss of automotive business is believed to be more than counterbalanced by augmented demand from railroads and industrial sources and for military purposes. Aircraft bearing and electric steel divisions have expanded facilities. Post-war prospects are aided by broader use of spiral bearings, as well as by the company's increasing activity in special high-grade alloy steels. Dividends, which have been paid annually since 1922, amount to $2 this year through Dec. 5, these comparing with $3.50 paid each in 1940 and 1941. The stock, quoted at about 6 points above the lowest price in five years, may be regarded as an excellent long-term holding for income and price appreciation.

In recapitulation, it may fairly be asserted that operations of the companies upon which comment has been made in this survey will persist at virtually capacity levels for the duration, influenced only by adequacy of raw materials. Moderately lower net income, after all charges and taxes, is probable in many instances, but the market declines

which have occurred seem amply to have discounted such eventualities. The post-war era is fraught with uncertainty for individual accessory makers, particularly with respect to the character of trade relations with the automobile manufacturers However, the accumulating automotive demand should provide a vast overall volume of business for the accessory industry as a whole, with the concerns deriving a substantial portion of business from non-automotive sources being in a more favored position.

Have Machine Tools Discounted Peace?

(*Continued from page 229*)

around $3 for the past seven years. Such stability is unusual in a machine tool company, particularly with current sales running many times those of 1936. A partial explanation is that the stock was split 2-for-1 in December, 1940, while at the same time 62,342 shares of the new $2.50 par stock were sold at $15.25 a share, making the total issue 240,000 shares. While it is difficult to adjust pre-war earnings in terms of the new stock, obviously the price-earnings ratio for 1937-39 in the table is somewhat too low—a figure around 5 would make approximate allowance for the split-up and sale of new stock. Even this ratio makes the stock appear rather attractive, as compared with some others in the list.

The company's balance sheet last year reflected a good current position, and long-term debt as well as bank loans had been eliminated.

Giddings & Lewis Machine Tool, a Wisconsin company, is the leading maker of high-power precision horizontal machine tools for operations such as boring, drilling, milling, tapping, reaming and facing. Machines weigh from 10 to 125 tons and are suited not only to a diversity of uses in small plants but also mass production purposes in larger factories. Close operating relations are maintained with Kaukauna Machine Corp. which is principally owned by President Kraut of Giddings & Lewis. The original business dates back to 1859, a recapitalization occurring in 1936.

Securities Disturbing Investors

(*Continued from page 233*)

liabilities. Proceeds from sale of securities has been held in cash and Government bonds—which currently are close to $30 millions.

Conclusion: It is our opinion that the current price of 4⅜ discounts the adverse uncertainties in the outlook. With a high yield forthcoming and a chance for moderate price improvement the stock is worthy of retention over the longer term or at least until clarification of final integration of the company. For tax purposes, sale is suggested to build up a capital loss reservoir for use in the next five years. Probably the stock will move but little in the next 30 days so that after getting the benefit of capital loss deductions you might readily repurchase at the same levels.

Reconstruction of Europe

(*Continued from page 215*)

pean currency, to the maintenance of an inter-European transport system, and perhaps even to free movement of labor within the Continent.

As a matter of fact, free interchange of European products during the reconstruction period could probably reduce the volume of outside help. Central control of transport facilities should also aid the distribution of supplies. Another factor which would help the inter-European sense of solidarity would be the building of public works on an inter-European scale, to benefit the Continent as a whole.

While planning on an inter-European scale sounds ambitious and visionary even during these days of revolutionary processes, it is held by some to be the key to the problem of post-war settlement. The conviction is growing that the Continent of Europe must primarily lift itself from the war morass and that extensive cooperation, short of federation, is the only way to do it.

A Frenchman, Denis Sauraut, suggested as early as 1940 that the European states, instead of entering

into regular peace treaties with each other, should convoke a congress for reorganization of Europe five years after the conclusion of hostilities. Among many similar suggestions, one for the convocation of an all-European congress at which the Europeans themselves would work out the division of powers to be retained by individual states and those to be given to central government was that made recently in a letter to the New York Times by a well-known advocate of Pan-European Union, Count Coudenhove-Kalergi.

We may conclude with another quotation from Professor Carr's book: "The idea that peace can be established by shifting frontiers in conformity with some fixed rules . . . did duty at Versailles and failed. The urgent need is to alter *not the location* but *the meaning of frontiers*. The drawing of frontiers thus becomes a secondary process, not only in importance, but in time."

It will be a happier Europe that will consider its much fought-over frontiers no longer anything but administrative boundaries.

Answers to Inquiries

(*Continued from page 249*)

industry. Methanole, wood alcohol, is made synthetically and used chiefly in the manufacture of formaldehyde. Whiskey both bourbon and rye are sold in bulk form.

In the early days of the Weizman process something went decidedly wrong with it and it seemed for a time as if the whole process would fail in this country. Heavy research restored the process to its original strength. Research led to new basic solvents patents, has led to the present innovation in vitamins and nitroparaffin, and has saved the corporation several times in its history.

As observed above the sales for 1941 were about $66,000,000. This resulted in net before taxes of approximately $3,300,000, for the nine months ended September 30, 1941. The net for the same period of this year was $7,182,527, more than double. From this it can be deduced that gross sales are reaching enormous proportions. The earnings per share in 1940 were 91 cents, in 1941, 99 cents and for the first nine months of this year 63 cents. No dividends were paid in 1939, 25 cents in 1940, 55 cents in 1941, and 30 cents on July 30 this year. We believe that at least another 25 cents will be be paid this year. The net current assets of this company have shown a steady improvement, being 11.3 million dollars in 1939, 12.7 million dollars in 1940, 13.7 million dollars in 1941. In recent years the turnover has shown a very healthy increase, the number of times inventory has been turned over in sales was in 1939 6.6, in 1940 8.9, in 1941 10.8. Therefore, in this most desirable of all operating factors splendid advancement is being shown. This security should be purchased at current levels of 9⅜.

American Smelting & Refining Co.

In making my year-end security changes I am undecided what to do about my 50 shares of American Smelting & Refining bought at 36 this year. Will the W L B ruling in October for increased wages hurt the company? Is it being affected by the halting of gold mining operations since it produces considerable gold? Can better zinc and lead prices offset the increase in wage scales? What will the new zinc smelter in Texas mean to the company's production next year? Will the $1.50 extra dividend declared at the end of 1941 be duplicated? What's the general picture now from the viewpoint of future earnings and market action? Why is Mexican production doing so much better?—K. S. N., Cleveland, Ohio.

Fluctuating within a price range of 43 high and 35½ low, currently selling at 37, stockholders are warranted in making a careful review of the company's situation. The market price of the shares has not risen from its depression lows to the same degree as many others have. This result is widespread amongst the corporation's operating in the copper industry. Widespread belief that peace when it comes will mean greatly reduced prices for copper, and will bring back into heavy competiton the South African coppers, have led to the present market valuations for the equity. Should we regard the war years as being 1939 to 41 and three prior peace years as 1936 to 1939 we have a six-year period in which to gauge the company's ability in both peace and war. During this time American Smelters has earned $30.79, has paid to its owners $20.55, per share. The amount of $10.24 a share has been plowed back into the corporate treasury. This has been accomplished without any increase or funded debt either by the company directly or by assumption of subsidiary debt. Taking a view of the liquidity of the company's capital structure it is sufficient to point out that their net current assets standing at $64,305,772 at the close of the year 1936 had risen by the end of 1941 to $71,676,249. Operating profit margins have been on a rising scale since 1936, standing in that year at 2.3 per cent, declining in 1937 to 17.75 per cent, in 1938 to 14.70 per cent, and commencing to rise in 1939, when they were 15.36 per cent, in 1940 16.2 per cent, reaching 20.13 per cent for the year 1941. Profit margins will be aided this year by higher average lead and zinc prices, which should compensate for increased labor and other costs. Domestic smelting and refining facilities will operate at a high rate for the duration, owing to the demand which has been generated as a result of the war effort. Mexican operations are expanding under the stimulus of higher prices being paid by the Metals Reserve Co. for lead and zinc. The earnings, as reported by the company, for the first six months of 1942 were $1.60 against $2.29 in the 1941 period. Dividends were paid in 1941 of $3.50, so far this year $2, including 50 cents. November 30, payment, has been made. It is believed the $2 figure is entirely safe since it has been covered in the first nine months of the year. In October the War Labor Board voted wage increases of 2½ to 12½ cents an hour for about 4,000 of the company's smelters in plants in California, Colorado, Illinois, New Mexico and at Montgomery, N. J. The effects of this increase will show in the last quarter. There is also the question of the W. L. B. restriction on gold mining operations which are not likely to affect the company. Copper, lead, zinc, gold and silver are the most important metals produced by the company but the gold and silver are obtained as bi-products of copper and lead ores.

This contingency will of course, require copper and as some gold or silver is associated in nearly all the veins the production of gold by American Smelting & Refining Co. is in no way handicapped. In addition the gold and other business in Mexico is in no way affected. In summarizing the outstanding points to be borne in mind about American

Smelting & Refining are these. The War Labor Board recent ruling for increased wages will raise the company's expenses but will not injure them seriously. The company is not being affected by the halting of gold mining operations. Better zinc and lead prices definitely can offet the increase in wage scale. The new zinc smelter at Corpus Christi, Texas, with an annual capacity of 25,000 tons, output going exclusively to Metals Reserve Corp., has made sure the productive capacity of Mexican property. The $1.50 extra dividend paid last year will, in all probability not be duplicated this year. Nevertheless, the stock is selling at reasonably low levels on its present return.

Pullman, Inc.

(*Continued from page 235*)

position. This is vividly illustrated by the fact that, although operations for the four years from 1932 to 1935, inclusive, resulted in a total net deficit equal to $1 per share, dividends aggregating $11.62½ per share were paid to shareholders. Distributions in 1942 through December 15 were equal to $3 per share of capital stock, compared with $2.50 in 1941 and $1.50 in 1940.

For the duration, all manufacturing and transportation facilities of the Pullman organization will be fully employed. In view of the inevitable readjustments that will follow the cessation of hostilities, the eventual status of the company during the post-war years is already occasioning much conjecture in financial circles, with particular stress upon the probable nature of the company's transportation activities. Intense competition from other forms of transportation is foreseen and, because of the comparatively low return on the investment in The Pullman Co., the point has been raised in some quarters that Pullman, Inc., might choose to dispose of its Pullman car division, retaining only the manufacturing subsidiaries.

In rebuttal of these views, David A. Crawford, president of Pullman, Inc., asserts that "any suggestion of liquidation of the sleeping car business still is certainly in the realm of individual opinion."

The manufacturing division will be favored, for a considerable period at least, by the accumulating requirements for rehabilitation of railroad rolling stock. When such demand has been filled, there will arise the problem of utilization of these manufacturing facilities. Inasmuch as the transition to the production of such unfamiliar lines as war equipment was successfully accomplished, it is conceivable that the management may be equally successful in adapting its operations to the production of other heavy equipment for which outlets may contemporaneously develop.

Meanwhile, the capital stock, selling at only about six points above the low for the past two years, comprises an attractive issue for income and fair price appreciation. The strong cash position, as well as the past impressive record, suggests maintenance of a liberal dividend policy during 1943. Even after allowing for higher costs and taxes anticipated next year, the volume of business on the books of the company, and in prospect, should be adequate to assure earnings sufficiently large to warrant market prices for the capital stock higher than those now prevailing.

At What Price Should Your Stocks Sell?

(*Continued from page 218*)

industry is being overdone. Do not forget that there are many people who have been unable to buy steel because the war effort has taken almost all of it. There will be peace-time machinery to be rebuilt and new kinds of machines to be made, railroads to rehabilitate, deficits in simple things of all kinds to be replenished, and an inevitable post-war building boom to be supplied. Perhaps the early years of peace will witness a steel industry prosperity, especially for the light steel companies like National, Inland and American Rolling Mill, which will confound the pessimists.

Nor is there an open and shut case that the shipbuilding industry will fold up as quickly or as completely as it did after the last war. If America is to take its place as a victorious world power, our foreign trade will expand greatly; there are huge deficits of all kinds of peace goods to be exchanged between the Orient and the Occident and between America and Europe. The railroad equipment companies ought to have a good business in cars and locomotives to replace the present armament business, and they are selling at reasonable values, "ex war."

Special mention should be made of the rail shares. They are regarded as war stocks, and hence are selling at from one to five times earnings in most cases. The investing public made be writing their obituaries at a premature time. Railroad management is being modernized, railroad plant is being mechanized, and the art of competition with other kinds of transportation is being learned, even at a late hour. The future of the railroads is tied up with the future of heavy freight, and in the early post-war period there is likely to be plenty of it—especially if we have a housing boom. At any rate, the rail shares at these prices are assuming the worst about railroad traffic and the future of the industry. No one expects that Southern Pacific will continue to earn $18 a share and Atchison $22; but Southern Pacific at 16 is assuming earnings of $2 a share and Atchison at $46 is assuming earnings of $4 or $5 a share, and such figures are far from preposterous.

The stock market overdiscounted war earnings in the early days of the conflict when Bethlehem Steel sold at $100 a share. Probably it will overdiscount peace by a too large rise in the peace shares before the end of hostilities. Some peace equities, not doing too well now, probably will sell higher before the armistice than after it; and if history repeats itself, as it probably will, some of the war stocks will overdiscount peace too. In 1919, the first year after the 1918 armistice, many of the war stock sold higher than at any time in 1918 or in 1917.

Probably we are in for a series of surprises in individual stocks. Some of the war shares will pay much larger cash dividends in the process of liquidating the war than we expect; and some of the so-called peace industry shares may not deliver as good earnings as we anticipate. Every equity presents a different problem in arriving at a proper post-war appraisal, and right now we can

outline only dimly what these problems are. The picture will unfold slowly in each case, and only the more alert will catch profitably early glimpses of its true nature.

Always in judging a corporation's securities the one most important thing to keep in mind is the ability of the management. The human element is far more important than the statistics and the assets; and the right brains can profit from almost any kind of an economic situation. This war is developing as much new thinking power in America as it is air power and shooting power. Have faith in the management of American industry, and try to make some wise selections. If you succeed you won't have to worry about price-earnings ratios or the relative merits of war shares and peace stocks.

As I See It

(*Continued from page 205*)

every conquered nation ready to take over after the war—men who do not believe in Communism nor do their people. I found great opposition to Communism in the countries adjacent to Russia, because these people—above all others—could see its weaknesses at close range. In fact, the strength of Fascism was due to the fear of Communism, and the Fifth Column supporting Hitler was more anti-Communist than it was pro-Hitler.

Three hundred years ago, Edmund Burke in his speech on conciliation of the American Colonies gave the clue to successful democratic control of the world when he said that in order to succeed, every people must be guaranteed that they will have good government by their own self rule and not by enforced international policing of their "elections and their parliaments." And it is as sound today, because each nation has its individual characteristics and its own individual problems.

We have set up a great ideal—that of helping the poor and the lowly the world over to get on their feet and to support themselves. And if we go about it with sincerity and understanding, there is no danger that Communism will survive anywhere—including Russia.

Investment Audit of F. W. Woolworth

(*Continued from page 239*)

The so-called "soft goods" lines will also be progressively restricted as the war continues. Demand for textiles of every kind for uniforms, tents, bandages, packaging, and innumerable other war uses will engross the operating facilities of makers of those articles to an extent where the quantity available for ordinary retail purposes will be considerably diminished.

Dividend policy of this company has been comparatively liberal over the years. Beginning with 1932, the company has disbursed a sum equal to 80% of total earnings in the decade ended with 1941. In view of increasing taxes, it is a moot question whether such a generous policy will be continued in the immediate future. The increasing ratio of taxes to total revenues suggests maintenance of a conservative dividend policy in future months, and if the 80% ratio of dividends to earnings is to be preserved in future, profits must remain in excess of $2 annually to sustain the existing dividend basis of $1.60 per share annually. In this connection, it is worthy of mention that while total taxes in 1932 were equal to 30.8% of the 1932 dividend, in 1941 total taxes were 16% in excess of the 1941 dividend. Therefore, while it is entirely probable that the company's strong cash position may be an important factor in persuading the company's director's to adhere to the existing $0.40 quarterly basis for the next few dividend periods, final determination of the extent of such disbursements will be influenced largely by the trend of net income during 1943.

While it would be hazardous to assert that the company is closely approaching the period of maximum growth, the considerable expansion of rivals in the variety store trade over the past decade leads inescapably to the conviction that profit progress in the years ahead will be largely governed by the ability of the management to secure higher net profits for each unit operated.

Selling at about 15 times indicated 1942 earnings, the capital stock, at

DIVIDEND NOTICES

the present time, cannot be considered an attractive purchase, especially in view of the less favorable profit outlook for 1943. However, for present shareholders a return of about 5½% is provided; therefore, on the presumption that no downward revision of the prevailing dividend rate may occur in the months immediately ahead, there appears little reason for disposing of existing commitments in the capital stock of the Woolworth Company.

If the War Ends Next Year —In 1944—In 1945

(*Continued from page 210*)

tries—there are ahead of us now fully two more years of a full war economy so far as concerns diversion of current individual incomes into liquid savings at a record high rate, so far as concerns the progressive depreciation and obsolescence of all forms of durable goods now in use, and so far as concerns, therefore, the magnitude of post-war consumer markets waiting to be served. On this two-year projection to late 1944, the war-time build-up of liquid savings will have amounted to $60 billions.

We cannot measure in dollar totals the present annual rate of depreciation and obsolescence of durable goods and equipment as an indication of future physical need for replacement. With style and model-years now forgotten, and with reasonable care, we are learning that virtually all types of durable goods will last much longer than we formerly assumed. It is also true that, in ratio to the national income, purchases of consumer durables were abnormally heavy in 1940, 1941 and such part of 1942 as inventories of such goods remained available. Nevertheless, things do wear out: notably automobiles which—directly and indirectly—account for a major portion of durable goods activity. By the end of 1944 there will have been three full years of stopped auto production for civilians. The minimum need built up by intervening wear-out of existing cars probably would be 9 to 10 million units—equivalent to two years of active production as judged by the industry's past standards.

The minimum needs for consumer goods of all kinds—autos, homes, electrical appliances, furniture, etc. —naturally would be proportionately larger with each additional year of war, with each more year that the entire civilian economy remains on a "pull-in-your-belt" basis.

Contrary to popular thinking, a magically early end of the war—though desirable for other reasons—would make the transition to a peace economy *more*, rather than less, difficult. More stimulus from Government action would be required to keep the economy on an even keel at a high level than if we remain on a consumer-squeeze basis for another two to three years.

It is quite evident that it is the intention and hope of the present U. S. and British governments to get on not only with peace but the beginnings of relief and reconstruction in Europe, so far as physically possible, as soon as Germany is defeated, and without waiting for termination of the Jap "incident." Regardless of just how this is financed, it inevitably will be an important part of the foundation for a continuing high level of American production and exports for a considerable time after European hostilities end.

Admittedly, the full scope of our participation in European reconstruction—as more fully discussed by Mr. V. L. Horoth in the article beginning on page 213—cannot now be confidently forecast. Much will depend on the public opinion reaction in this country. Yet it is impossible to believe that the reaction will be back to "isolationism" in anywhere near the degree following the last war. If that is so, our choice will not be participation versus no participation. The choice will merely be how much participation, where and by what methods.

Indeed, if we are to play a leading political and economic role in world affairs henceforth, the attendant *domestic* economic potentials, growing out of increased international commerce and large scale foreign investment of American capital in the development of backward regions of this earth, will be enormous for years to come.

Finally, the size of the post-war markets for consumer goods—especially in our rich home market—is not a matter of minimum physical need but also of desire and taste. From decade to decade, our people have never ceased to desire more and better goods. Obsolescence creates consumer demand just as surely as does depreciation, and often more so. We are in an age—speeded by the war demands—of revolutionarily rapid technical and scientific innovation.

There have been times in the past when, for various reasons, the commercialization of invention was held back. It is much to be doubted that that will be true after this war. We have now seen the productive genius and energies of America released in undreamed of proportions. In the writer's opinion, it is highly improbable that the people or the Government or the best minds in American business are going to be willing to go back to any form of industrial restrictionism or protectionism.

In short, in the writer's view, the post-war competitive status and the high level of prevailing consumer purchasing power will combine to induce the earliest large scale introduction of new or vastly improved consumer products that will be physically possible.

This will not come instantly with peace—whether in 1943 or 1944 or 1945. Indeed the first renewed production of automobiles and other consumer durables very likely will be essentially the models brought out in the autumn of 1941. Those in a position to know what they are talking about say it will take a full year, maybe more, to re-equip civilian industries sufficiently to produce durable goods reflecting any major part of the technical advances in industrial materials and fabricating techniques that will be available to engineers and designers.

Such equipment preparation—like preparation for war production—will itself be one of the sources of continuing high-level economic activity.

Sounds like a boom? Yes—a boom throughout the war in employment and income, but with full reflection in the living standard denied and deferred until peace. After the war, a prosperity not only in dollars of income and savings but also in our general standard of living. From a strictly economic-financial viewpoint —though not, of course, from a humane one—it is less than vital whether our victory celebration occurs in 1943 or 1944 or 1945.

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